# Public Joint Stock Company “Research and Production Corporation “United Wagon Company”

Consolidated Financial Statements and
Independent Auditor’s Report
For the Year Ended 31 December 2019

**PUBLIC JOINT STOCK COMPANY**
**“RESEARCH AND PRODUCTION CORPORATION “UNITED WAGON COMPANY”**

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**PUBLIC JOINT STOCK COMPANY**

**"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company "Research and Production Corporation" United Wagon Company" (PJSC RPC UWC or the "Company") and its subsidiaries (the "Group") as at 31 December 2019, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 30 April 2020.

**On behalf of the Management:**

**Timofey Khryapov**
Chief Executive Officer
PJSC RPC UWC

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5 Lesnaya Street
Moscow, 125047,
Russia

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**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and the Board of Directors of Public Joint Stock Company "Research and Production Corporation "United Wagon Company":

**Qualified Opinion**

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" (the "Group" or "PJSC RPC UWC Group") and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

**Basis for Qualified Opinion**

As disclosed in Note 26 to these consolidated financial statements, as at 31 December 2019 and 2018 certain subsidiaries of the Group breached a number of financial and non-financial covenants set out in the loan agreements with banks. Non-compliance with these covenants may result in negative consequences for the Group, in particular, the loans becoming callable on demand. The Group received the documents confirming intention of some of the creditors not to request an early repayment of the existing liabilities after the reporting date (Note 26). The management of the Group assessed the probability of the call for early repayment of these borrowings amounting to RUB 16 779 million (except for the loan included in the disposal group of assets and related liabilities presented separately in the consolidated statement of financial position (Note 7)) and RUB 22 845 million as at 31 December 2019 and 2018, respectively, as low, and therefore presented them in these consolidated financial statements as non-current liabilities, in line with the initial repayment terms set out in the loan agreements. In our opinion, according to the requirements of IAS 1 *Presentation of financial statements*, the Group should have classified these borrowings as current liabilities in the consolidated statement of financial position and related notes to the consolidated financial statements because as at 31 December 2019 and 2018 the Group did not have an unconditional right to postpone the repayment of these borrowings for at least 12 months after the reporting date.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Russia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not express a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| **Goodwill impairment test** | |
| As at 31 December 2019, the carrying value of goodwill amounted to RUB 9 847 million (2018 (as restated): RUB 9 847 million).<br><br>Details are provided in Note 17 to the accompanying consolidated financial statements.<br><br>We consider this matter to be a key audit matter, as the Group's management's goodwill impairment test involves significant assumptions and estimates, such as the forecasted selling price of railcars manufactured by the Group, their production cost, sales volume and discount rate. In addition, estimated recoverable amount is highly sensitive to insignificant changes in these assumptions. | We obtained an understanding of the Group's goodwill impairment review processes and assessed the impairment methodology for its compliance with the requirements of the standards. We have completed the following audit procedures with respect the impairment testing prepared by the Group's management:<br>• checked the appropriateness of goodwill allocation to the relevant cash generating units;<br>• verified that the input data used in the impairment testing models is consistent with the approved budgets and forecasts;<br>• with the assistance of our internal valuation specialists, challenged reasonableness of key assumptions used in management's forecasts, including the discount rate;<br>• performed sensitivity analysis of the impairment models' key assumptions within the range of their reasonably possible changes; and<br>• reviewed the completeness and accuracy of the disclosures in the notes to the consolidated financial statements. |

| Why the matter was determined to be a key audit matter | How the matter was addressed in the audit |
|---|---|
| **Going concern assumption** | |
| As at 31 December 2019 and during 2019, the Group did not comply with certain obligatory financial and non-financial covenants set out in the loan agreements. As a result of non-compliance, the loans became payable on demand (Note 26). After the reporting date, the Group either received official confirmation from the banks not to demand early repayment of the existing borrowings with the breached covenants, or technically remedied the breaches.<br><br>Besides, an outbreak of COVID-19 after the reporting date and introduction of restrictive measures, as well as a drop in world oil prices and depreciation of the Russian Ruble against major foreign currencies may have a negative impact on the Group's consolidated financial position and its consolidated financial performance in future (Note 33).<br><br>The Group's management performed an analysis of these negative factors and assessed their consequences by considering possible scenarios of the current economic environment and availability of funding sources and ability to obtain funding in the medium term, and concluded that there is no significant uncertainty regarding the Group's ability to continue as a going concern in the foreseeable future.<br><br>Further details are disclosed in Notes 2 and 33 to the consolidated financial statements.<br><br>We focused on this area because the assessment of whether the going concern assumption is applicable has a pervasive effect on the Group's consolidated financial statements. Besides, the management's analysis to identify significant uncertainty regarding the Group's ability to continue as a going concern requires an assessment of the Group's future financial performance amid the negative impact of world oil prices weakening and COVID-19, as well as in assessing the Group's ability to resolve loan portfolio restructuring issues and to comply with covenants in future. | We performed the following audit procedures in respect to this key audit matter:<br><br>• analyzed the management's assessment of the risks related to the Group's ability to continue as a going concern, including plans to eliminate consequences of non-compliance with covenants and to agree with the banks a new set of covenants that would allow the Group to settle its debt liabilities in due course given the changes in the economic environment;<br>• verified that after the reporting date the Group and its subsidiaries received documents confirming intention of all of the banks not to demand early repayment of the existing borrowings with breached covenants;<br>• analyzed the management's forecasts and scenarios in respect of the Group's future business development (for example, possible decrease in production output due to temporary shutdown of production subsidiaries, liquidity volatility due to decreased operating cash inflows) and assessed the reasonableness of key assumptions used in the forecasts given the negative developments in the business environment in Russia and globally;<br>• reviewed the completeness and appropriateness of the relevant disclosures in the notes to the consolidated financial statements. |

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report and the quarterly report of the issuer for the first quarter of 2020 but does not include the consolidated financial statements and our auditor's report on those statements. The annual report and the quarterly report of the issuer for the first quarter of 2020 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information after it is provided to us and to consider whether there are any significant inconsistencies between the other information and the consolidated financial statements or our knowledge gained in the course of the audit, and whether the other information potentially contains other material misstatements.

If, based on the reading of the Annual Report and the quarterly report of the issuer for the first quarter of 2020, we conclude that it contains material misstatements, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Metelkin Egor Alexandrovich
Engagement Leader

30 April 2020

Entity: PJSC RPC UWC

State Registration Certificate 77 No. 017552796 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 46 on 28 May 2014.

Primary State Registration Number: 1147746600539

Address: 10 Arbat Street, Moscow, 119002, Russian Federation

Audit firm: AO Deloitte & Touche CIS

Certificate of State Registration No. 018.482, issued by Moscow Registration Chamber on 30 October 1992.

Primary State Registration Number: 1027700425444

Certificate of Registration in the Unified State Register of Legal Entities Series 77 No. 004840299, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on 13 November 2002.

Member of Self-Regulated Organization of Auditors "Sodruzhestvo" (Association), ORNZ 12006020384.

## PUBLIC JOINT STOCK COMPANY
## "RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019
***(in millions of Russian Rubles, unless otherwise indicated)***

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 8 | 64 470 | 70 019 |
| Cost of sales | 9 | (53 336) | (65 567) |
| **Gross profit** | | **11 134** | **4 452** |
| Selling, general and administrative expenses | 10 | (2 895) | (3 919) |
| Share of profit/(loss) of associates and joint ventures | 18 | 76 | (2) |
| Other operating (expense)/income, net | | (101) | 75 |
| Impairment of non-current non-financial assets | 14,16 | (490) | (1 580) |
| Loss on fair value adjustments less costs to sell of assets held for sale | 14,15 | (209) | - |
| **Operating profit** | | **7 515** | **(974)** |
| Finance income | 11 | 3 505 | 1 764 |
| Finance costs | 12, 23 | (8 720) | (12 959) |
| Foreign exchange (loss)/gain, net | | (105) | 51 |
| **Profit/(loss) before income tax** | | **2 195** | **(12 118)** |
| Income tax (expense)/benefit | 13 | (933) | 225 |
| **Profit/(loss) for the year from continuing operations** | | **1 262** | **(11 893)** |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 7 | 1 873 | 2 116 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **3 135** | **(9 777)** |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Gain on revaluation of property, plant and equipment | 14 | - | 4 714 |
| Deferred tax liability on revaluation of property, plant and equipment | 13 | - | (943) |
| Other comprehensive income | | **-** | **3 771** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | | **3 135** | **(6 006)** |
| **Earnings/(loss) per share** | | | |
| From continuing and discontinued operations | | | |
| Weighted average number of ordinary shares outstanding | | 115 996 689 | 115 996 689 |
| Basic and diluted earnings/(loss) per share (RUB) | | 27 | (84) |
| From continuing operations | | | |
| Weighted average number of ordinary shares outstanding | | 115 996 689 | 115 996 689 |
| Basic and diluted earnings/(loss) per share (RUB) | | 11 | (103) |

The notes on pages 11-73 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
***(in millions of Russian Rubles, unless otherwise indicated)***

| | Note | 31 December 2019 | 31 December 2018 (restated)* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 56 004 | 80 939 |
| Right-of-use assets | 15 | 1 976 | - |
| Prepayments for property, plant and equipment and intangible assets | | 237 | 510 |
| Intangible assets | 16 | 5 624 | 6 616 |
| Goodwill | 17 | 9 847 | 9 847 |
| Deferred tax assets | 13 | 4 006 | 3 454 |
| Investments in associates and joint ventures | 18 | 1 231 | 1 154 |
| Loans receivable | 23 | 5 947 | 9 265 |
| Long-term trade receivables from the sale of railcars | | 49 | 495 |
| Restricted cash | 24 | 176 | 146 |
| Other non-current assets | 19 | 606 | 1 374 |
| **Total non-current assets** | | **85 703** | **113 800** |
| **Current assets** | | | |
| Inventories | 20 | 11 329 | 11 812 |
| Trade and other receivables | 21 | 2 673 | 8 490 |
| VAT receivable | | 9 280 | 5 995 |
| Prepayments to suppliers and other assets | 22 | 4 100 | 4 969 |
| Prepaid income tax | | 1 069 | 1 091 |
| Loans receivable | 23 | 114 | 92 |
| Restricted cash | 24 | 53 | 2 117 |
| Cash and cash equivalents | 24 | 10 960 | 10 871 |
| **Total current assets** | | **39 578** | **45 437** |
| Assets held for sale | 7 | 35 193 | - |
| **TOTAL ASSETS** | | **160 474** | **159 237** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity and reserves** | | | |
| Share capital issued | 25 | 116 | 116 |
| Additional paid-in capital | 25 | 22 993 | 22 993 |
| Reserve on revaluation of property, plant and equipment | 14 | 12 784 | 12 936 |
| Accumulated deficit | | (25 263) | (28 550) |
| **Total equity and reserves** | | **10 630** | **7 495** |
| **Non-current liabilities** | | | |
| Long-term loans and borrowings | 26 | 29 850 | 44 000 |
| Bonds | 27 | 26 043 | 14 793 |
| Advances received | | 9 660 | 78 |
| Lease liabilities | 31 | 1 002 | - |
| Deferred tax liabilities | 13 | 2 861 | 1 549 |
| Finance lease liabilities | 31 | - | 18 282 |
| Financial liabilities under leaseback transactions | 30 | - | 4 967 |
| Accrued expenses for employees remuneration | 29 | - | 150 |
| **Total non-current liabilities** | | **69 416** | **83 819** |
| **Current liabilities** | | | |
| Short-term loans and borrowings | 26 | 8 227 | 18 087 |
| Bonds | 27 | 116 | 15 640 |
| Advances received and other current liabilities | 29 | 24 541 | 24 583 |
| Trade and other payables | 28 | 4 982 | 4 893 |
| Lease liabilities | 31 | 525 | - |
| Finance lease liabilities | 31 | - | 3 188 |
| Financial liabilities under leaseback transactions | 30 | - | 1 532 |
| **Total current liabilities** | | **38 391** | **67 923** |
| Liabilities directly associated with assets classified as held for sale | 7 | 42 037 | **-** |
| **TOTAL LIABILITIES** | | **149 844** | **151 742** |
| **TOTAL EQUITY AND LIABILITIES** | | **160 474** | **159 237** |

*Restated as per the final estimate of the allocation of the acquisition cost of a subsidiary (Note 6).

**PUBLIC JOINT STOCK COMPANY**
**"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2019**
***(in millions of Russian Rubles, unless otherwise indicated)***

| | Share capital issued | Additional paid-in capital | Reserve on revaluation of property, plant and equipment | Accumulated deficit | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2018 (as previously reported)** | **116** | **22 993** | **9 171** | **(18 579)** | **13 701** |
| Effect of change in accounting policy due to adoption of IFRS 9, net of tax effect (Note 3) | - | - | - | (200) | (200) |
| **Balance at 1 January 2018 (as restated)** | **116** | **22 993** | **9 171** | **(18 779)** | **13 501** |
| Loss for the year | - | - | - | (9 777) | (9 777) |
| Gain on revaluation of property, plant and equipment, net of tax effect (Note 14) | - | - | 3 771 | - | 3 771 |
| Comprehensive loss for the year | - | - | 3 771 | (9 777) | (6 006) |
| Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period | - | - | (6) | 6 | - |
| **Balance at 31 December 2018** | **116** | **22 993** | **12 936** | **(28 550)** | **7 495** |
| Comprehensive income for the year | - | - | - | 3 135 | 3 135 |
| Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period | - | - | (152) | 152 | - |
| **Balance at 31 December 2019** | **116** | **22 993** | **12 784** | **(25 263)** | **10 630** |

The notes on pages 11-73 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2019
***(in millions of Russian Rubles, unless otherwise indicated)***

| | 2019 | 2018 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **PROFIT/(LOSS) FOR THE YEAR** | **3 135** | **(9 777)** |
| Adjustments for: | | |
| Income tax expense | 1 398 | 323 |
| Depreciation and amortization | 5 090 | 5 900 |
| Loss on fair value adjustments less costs to sell of assets held for sale | 209 | - |
| Impairment of non-current non-financial assets | 490 | 1 580 |
| Loss on disposal of property, plant and equipment and intangible assets | 195 | 80 |
| Write-down of inventories to net realizable price | 386 | 298 |
| Gain from the sale of railcars from the Group's own railcar fleet (Notes 8 and 9) | (665) | (908) |
| Share of (profit)/loss of associates and joint ventures | (77) | 2 |
| Non-operating foreign exchange loss/(gain), net | 105 | (51) |
| Change in allowance for expected credit losses on accounts receivable | (29) | (6) |
| Finance costs | 12 651 | 15 512 |
| Finance income | (3 558) | (1 764) |
| Effect of discounting of accounts receivable | - | 24 |
| Other | - | 19 |
| **Operating profit before changes in working capital** | **19 330** | **11 232** |
| Movements in working capital: | | |
| Decrease/(increase) in trade and other receivables | 1 189 | (121) |
| Decrease/(increase) in prepayments to suppliers and other assets | 881 | (2 164) |
| (Increase)/decrease in VAT receivable | (2 636) | 855 |
| Decrease in inventories | 740 | 193 |
| Decrease/(increase) in trade and other payables | 281 | (234) |
| Increase in advances received and other current liabilities | 1 312 | 4 082 |
| Cash proceeds from operating activities | 21 097 | 13 843 |
| Cash proceeds from the sale of railcars from the Group's own railcar fleet (Notes 8 and 15) | 816 | 3 292 |
| Cash utilized to increase the Group's own railcar fleet (Notes 9 and 14) | (14 146) | (1 461) |
| Income tax paid | (927) | (1 576) |
| Finance costs paid | (11 919) | (12 590) |
| **Net cash (used in)/generated by operating activities** | **(5 079)** | **1 508** |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment, including prepayments, and other non-current assets | (2 079) | (3 123) |
| Proceeds from disposal of property, plant and equipment | 3 | 39 |
| Purchase of intangible assets | (411) | (1 316) |
| Loans receivable | (40) | (38) |
| Proceeds from repayment of loans receivable | 5 383 | 621 |
| Interest received | 1 300 | 1 559 |
| Proceeds from sale of other non-current assets | 356 | - |
| Proceeds from redemption of short-term deposits | - | 5 000 |
| Net cash outflow on acquisition of subsidiaries | - | (1 118) |
| Cash received from disposal of interest in an associate | - | 1 773 |
| **Net cash generated by investing activities** | **4 512** | **3 397** |
| **FINANCING ACTIVITIES** | | |
| Repayment of loans and borrowings | (17 929) | (34 506) |
| Redemption of bonds | (3 750) | - |
| Lease payments | (1 725) | - |
| Cash deposited in accordance with covenants (Note 24) | (210) | (2 220) |
| Proceeds from leaseback transactions (Notes 30, 31), net | 22 111 | 24 587 |
| Redemption of restricted cash (Note 24) | 2 204 | 807 |
| Proceeds from loans and borrowings | - | 14 500 |
| Purchase of own bonds | - | (6) |
| Finance lease payments, net | - | (1 028) |
| **Net cash generated by financing activities** | **701** | **2 134** |
| **Net increase in cash and cash equivalents** | **134** | **7 039** |
| Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents | (45) | 33 |
| **Cash and cash equivalents, beginning of the year** | **10 871** | **3 799** |
| **Cash and cash equivalents, end of the year** | **10 960** | **10 871** |

The notes on pages 11-73 form an integral part of these consolidated financial statements.

***(in millions of Russian Rubles, unless otherwise indicated)***

## 1. GENERAL INFORMATION

Public Joint Stock Company "Research Production Corporation "United Wagon Company" (PJSC RPC UWC, the "Company") was incorporated and domiciled in the Russian Federation on 26 December 2011 and is a public joint stock company as of 3 March 2015. The Company's registered and business address is Ul. Arbat, D. 10, Etazh 4, Pomeschenie I, Komnata 2, Moscow.

As at 31 December 2019, the Company is a holding entity for the group of companies (PJSC "RPC UWC" Group or the "Group") incorporated in the British Virgin Islands (the "BVI"), Cyprus, and the Russian Federation (the "RF").

As at 31 December 2019, principal activities of the Group include:

- Production of railcars at the manufacturing facility located in the town of Tikhvin, Leningrad region, Russian Federation, and their sale;
- Operating lease of railway cars (prior to the decision taken by the Board of Directors (the Supervisory Board) in December 2019 to approve the termination of operations of the *Railcar Fleet Lease* segment, Note 7);
- Rail transportation services.

The list of the Group's registered shareholders and their effective ownership interest as at 31 December 2019 and 2018 is presented in the table below:

| **Shareholders** | **At 31 December 2019 Share, %** | **At 31 December 2018 Share, %** |
|---|---|---|
| Public Joint Stock Company Trust | 27.76 | - |
| Plainwhite Consultants Limited | 14.99 | - |
| Management Consulting LLC fiduciary management [1] | 9.91 | 24.29 |
| Concern Uralvagonzavod JSC | 9.33 | 9.33 |
| Joint Stock Company Non-State Pension Fund Otkritie[1] | 7.80 | - |
| Management Company OTKRITIE LLC fiduciary management [1] | 6.56 | - |
| IQG Asset Management JSC fiduciary management (EFG Asset Management JSC)[2] | 5.66 | 5.66 |
| Management Company Sever Asset Management LLC fiduciary management | - | 17.93 |
| Joint Stock Company Otkritie Holding | - | 7.94 |
| Other shareholders | 17.99 | 34.85 |
| **Total** | **100** | **100** |

[1] As at 31 December 2019, indirect ownership of Otkritie FC Bank PJSC through voting shares as per information granted to the Company is 24.27% (31 December 2018: 24.29%).

[2] As at 31 December 2019 and 2018, indirect ownership of Safmar Financial Investments PJSC through voting shares is 5.66%.

As at 31 December 2019, the Central Bank of the Russian Federation (hereinafter – CBR) indirectly holds a controlling interest in the Group. As at 31 December 2018, the Group had no ultimate controlling party. As at 31 December 2019 and 2018, the Company had no ultimate beneficiary.

***(in millions of Russian Rubles, unless otherwise indicated)***

Information in respect of the Group's significant subsidiaries is disclosed in the table below:

| Company name | Place of registration | Principal activity | Ownership interest in the Group At 31 December 2019 | At 31 December 2018 |
|---|---|---|---|---|
| Rail 1520 (BVI) LTD | BVI | Investment company | 100% | 100% |
| Rail 1520 Finance Cyprus LTD | Cyprus | Investment company | 100% | 100% |
| Rail 1520 Cyprus LTD | Cyprus | Investment company | 100% | 100% |
| "RAIL1520" LLC | RF | Operating lease of railcars | 100% | 100% |
| Rail 1520 Service LTD | Cyprus | Investment company | 100% | 100% |
| Rail 1520 Service Cyprus LTD | Cyprus | Investment company | 100% | 100% |
| "RAIL1520 SERVICE " LLC | RF | Operating lease of railcars | 100% | 100% |
| Rail 1520 Cyprus Leasing LTD | Cyprus | Investment company | 100% | 100% |
| "RAIL1520 LEASING" LLC | RF | Finance lease of railcars | 100% | 100% |
| Rail 1520 Wagon Cyprus LTD | Cyprus | Investment company | 100% | 100% |
| " UWC TP " LLC | RF | Sale of railcars, castings and components | 100% | 100% |
| Ovilleno Holdings LTD | Cyprus | Investment company | 99% | 99% |
| JSC "Heavy Engineering Works" | RF | Production of railcars | 99% | 99% |
| "VNICTT" LLC | RF | Engineering and construction bureau | 99% | 99% |
| "TH "UWC" LLC | RF | Sale of railcars, castings and components | 99% | 99% |
| LLC NPC Springs | RF | Production of springs | 99% | 99% |
| TM-energo LLC | RF | Power generation | 99% | 99% |
| TM-energoservice LLC | RF | Power generation | 99% | 99% |
| TM-energomash, LLC | RF | Power generation | 99% | 99% |
| TM-energoprom LLC | RF | Power generation | 99% | 99% |
| JSC TAP "Titran-Express" | RF | Repair/production of railcars | 99% | 99% |
| UW Forge Company LTD | Cyprus | Investment company | 99% | 99% |
| "UWC Centrokuz" LLC | RF | Production of railcars | 99% | 99% |
| Restadiana Ventures LTD | Cyprus | Investment company | 99% | 99% |
| "UNICON 1520" LLC | RF | Organization of transportation of goods | 99% | 99% |
| RAIL 1520 Cyprus Management Company LTD | Cyprus | Investment company | 100% | 100% |
| "UWC Finance" LLC | RF | Issuance of debt securities | 100% | 100% |
| RAIL 1520 Tank Cars (BVI) Holding LTD | BVI | Investment company | 100% | 100% |
| RAIL 1520 Tank Cars Cyprus Holding LTD | Cyprus | Investment company | 99% | 99% |
| JSC "TikhvinChemMash" | RF | Production of tank cars | 99% | 99% |
| JSC "TikhvinSpetsMash" | RF | Production of platform cars | 100% | 100% |
| Holme Services Limited | BVI | Investment company | 100% | 100% |
| Pegadisa Management LTD | Cyprus | Investment company | 100% | 100% |
| RAIL 1520 IP LTD | Cyprus | Investment company | 100% | 100% |
| Raygold Limited | Cyprus | Investment company | 99.97% | 99.97% |
| AFCT Advanced Freight Car Technology Limited | Cyprus | Development of production technology for the plant | 99.97% | 99.97% |
| DEANROAD Limited | Cyprus | Development of production technology for the plant | 98.97% | 98.97% |
| Joint Stock Company "Tikhvin Freight Car Building Plant" (TVSZ JSC) | RF | Production of railcars | 99.97% | 99.97% |
| United Wagon Europe GmbH | Germany | Investment company | 99% | 99% |
| United Wagon Africa (PTY) | South Africa | Investment company | 99% | - |
| Starfire Engineering, Inc. | USA | Engineering and construction bureau | 99% | 99% |
| Rail Holding LTD | BVI | Investment company | 100% | 100% |
| "RAIL1520 INVEST" LLC | RF | Operating lease of railcars | 100% | 100% |
| SZIPK JSC | RF | Operating company providing utilities | 99% | 99% |

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

### Basis of preparation

The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of the entities of the Group were adjusted to ensure that they are presented in accordance with IFRS.

These consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for the purpose of consolidated financial reporting, fair value measurements are categorized into Level 1, 2 or 3. Based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### Going concern assumption

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

Under the terms of the loan agreements, the Group is required to comply with a number of covenants, including maintenance of certain financial ratios and other non-financial conditions. As at 31 December 2019 and during 2019, the Group's subsidiaries breached a number of financial and non-financial covenants stipulated by loan agreements that may result in negative consequences for the Group, including default (Note 26). As at 31 December 2019, a long-term portion of loans under such agreements with Otkritie FC Bank PJSC and ROSEXIMBANK (JSC) totaled RUB 16 748 million and RUB 31 million, respectively. A loan received by one of the Group's subsidiaries from Gazprombank (JSC), under which a number of covenants were also breached, totaling RUB 6 000 million is included in the consolidated statement of financial position within liabilities directly associated with assets held for sale.

After the reporting date but before the date of the approval of these consolidated financial statements, the Group either remedied the breaches that had arisen during 2019 and as at 31 December 2019, or received official letters from creditor banks confirming that they would not demand an early repayment of the loans with the breached covenants. Also, a guarantee letter was received from Otkritie FC Bank PJSC confirming that it had no intention to perform any actions that may affect the financial stability of the Group and its subsidiaries (Note 35).

All loans and borrowings are presented in these consolidated financial statements in accordance with initial payment terms stipulated in the loan agreements, notwithstanding whether the covenants had been breached as at the reporting date, or not. As at 31 December 2019, the deficit of assets that the Group plans to dispose of within 12 months from the reporting date (including assets held for sale of RUB 35 193 million (Note 7)) over liabilities that are planned to be settled within 12 months from the reporting date (including liabilities directly associated with assets held for sale of RUB 42 037 million (Note 7)) was RUB 5 657 million (31 December 2018: RUB 22 486 million). In January 2020, the termination of operations of the *Lease* segment was initiated (Note 7): a part of railcar fleet received by one of the subsidiaries under a leaseback agreement was sold and finance lease liabilities were restructured. Cash received by the Group in Q1 2020 from the restructuring of lease liabilities and sale of railcar fleet totaled RUB 2 160 million.

Also, the Company's management believes that it is highly probable that the credit committee of Otkritie FC Bank PJSC will issue a positive decision regarding a new set of covenants for the Group and its subsidiaries to comply with, and, if necessary, the bank is ready to consider the possibility of the Group's and its subsidiaries' debt portfolio restructuring that will be aimed at the modification of loan repayment schedules in accordance with the Group's forecast financial plan. Moreover, the current financial plan with short- and mid-term forecast horizon which was approved in 2019 allows the Company's management to manage risks related to the decline in the freight rail transportation market, which was forecast during several reporting periods, and to maintain the necessary level of liquidity.

According to forecasts made by the Group's management, the production output of TVSZ JSC, JSC "TikhvinChemMash" and JSC "TikhvinSpetsMash" in 2020 will be 19.9 thousand railcars (2019: 20.7 thousand): the Group's production entities manufactured 4.7 thousand railcars in Q1 2020, which is in compliance with the previously approved budget with slight deviations due to temporary shutdown in March 2020 and the supply approval process for one of the major customers. The Group's management expects stable demand despite the projected decline in the innovative railcar market in 2020: at the date of approval of these consolidated financial statements, the Group has entered into contracts or made preliminary arrangements for sale of the whole volume of railcars planned for production in 2020.

However, at the date of the approval of these consolidated financial statements there exist significant external factors beyond the Group's control, such as the current situation on the global financial markets, significant impact of COVID-19 (Note 33) due to its fast spread and adverse effect on the global and Russian economy, a decline in global oil prices, RUB weakening, and, as a result, possible difficulties in raising funds from credit institutions and diversifying the existing debt portfolio, further non-controlled at a microlevel decline in the freight transportation market and an unpredictable effect on the production levels in case of a shutdown for an extended period, may lead to an uncertainty that may cast significant doubt on the Group's ability to continue as a going concern due to possible further development of the negative factors mentioned above. Based on the scenarios the Group's management considered (from a short- and mid-term shutdown due to the COVID-19 quarantine to a significant decrease in demand for goods produced and the need for additional funding of working capital), it believes that at the date of approval of these consolidated financial statements, there are no significant risks related to the Group's ability to continue as a going concern.

**Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Group is the Russian Ruble ("RUB"). The presentational currency of the consolidated financial statements is the Russian Ruble. These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), except when otherwise indicated.

**Offsetting**

Financial assets or liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by IFRS or any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

**Foreign currency transactions**

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Exchange rates used in the translation were as follows:

| Currency | 2019 | 2018 |
|---|---|---|
| **End of the reporting period** | | |
| RUB/ USD | 61.91 | 69.47 |
| RUB/ EUR | 69.34 | 79.46 |
| **Average exchange rates for the reporting period** | | |
| RUB/ USD | 64.62 | 62.71 |
| RUB/ EUR | 72.32 | 73.95 |

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through December 31 of each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient for control, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interest in consolidated subsidiaries is identified separately from the Group's equity therein. Total comprehensive income / (loss) is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss and other comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated to the extent they do not represent an impairment loss on the Group's non-current assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 and IAS 19, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Contingent consideration transferred by the Group in a business combination is measured at fair value at the date of acquisition and included in the total consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. The contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**Acquisitions of entities under common control (non-cash payment)**

If the acquisition of entities under common control is performed by the exchange of shares, any other non-cash method or for a symbolic compensation, such transactions are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. For material common control transactions the consolidated financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred at the beginning of the earliest period presented.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets and liabilities as at the acquisition date. If, after reassessment, the net amounts of the identifiable assets and liabilities exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss and other comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Investments in associates and joint ventures**

An entity is considered an associate if the Group has significant influence over its financial and operating activities. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group reduces an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

**Non-current assets held for sale**

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

Upon disposal, the Group recognizes any retained portion of investment in an associate or a joint venture in accordance with IFRS 9, unless the retained investment continues to be an associate or a joint venture, in which case the Group uses the equity method.

**Intangible assets**

*Intangible assets acquired separately* are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

*Internally-generated intangible assets* – research and development expenditure.

The Group recognizes internally-generated intangible assets (which are mainly represented by research and development expenditure) when it can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete, use or sell the asset;
- The ability to use or sell the intangible asset;
- It is probable that the asset will generate future economic benefits;
- The availability of adequate technical, financial and other resources to complete, use or sell the asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognized as an expense in the period in which it was incurred. Development expenditure, that does not meet the criteria of intangible assets, is charged to the consolidated statement profit or loss and of comprehensive income when incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

No amortization is charged for intangible assets that are in the phase of development. Amortization begins when the asset is available for use, that is, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets which have been transferred from intangible assets under development to intangible assets subject to amortization are represented with patents and are amortized over the useful economic lives of the patents ranging between 9 to 289 months.

Useful lives of intangible assets, being the know-how and production technology development costs, are 43 years, which is equal to the average useful life of immovable property used by the Group for the production of railway cars at the manufacturing facility.

The ERP system development and installation costs are amortized over 10 years which is the best estimate of their useful economic lives.

Expenditure, which enhances or extends the performance of intangible assets beyond their original specifications is recognized as a capital improvement and added to the original cost of the intangible asset.

*Intangible assets acquired in a business combination* – intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

**Property, plant and equipment**

Before 30 June 2016 all categories of property, plant and equipment acquired or produced by the Group were stated at cost, less accumulated depreciation and accumulated impairment losses. Historical cost model was applied.

In 2016, for certain categories of property, plant and equipment, management of the Group decided to change the accounting policy to a revaluation model. As at the reporting date Production equipment and motor vehicles and Production plant and buildings categories (Group 1) are stated at revalued amounts, and Railcars for lease and Office equipment and furniture categories (Group 2) – at historical cost.

Starting from 30 June 2016 items of property, plant and equipment from Group 1 are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequently accumulated depreciation and impairment losses. Property, plant and equipment carried at revalued cost were last revalued on 30 June 2018 (Note 14). Revaluations are performed with sufficient regularity such that the carrying amounts of property, plant and equipment carried at revalued cost do not differ materially from those that would be determined using fair values at the end of each reporting period.

Items of property, plant and equipment from Group 2 are stated in the consolidated statement of financial position at their cost, less any accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on the revaluation of property, plant and equipment from Group 1 is recognized in other comprehensive income of the consolidated statement of profit and loss and other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount of the equipment and production plant and buildings arising on the revaluation is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Construction in-progress is carried at cost, less any recognized impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalized borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use. Construction in-progress items are reviewed regularly to determine whether their carrying value is fairly stated.

The costs of day-to-day servicing of Group 1 and 2's property, plant and equipment, including repairs and maintenance expenditure, are expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately to consolidated statement of profit and loss and other comprehensive income. All other costs are recognized in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss and other comprehensive income.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land and assets under construction are not depreciated.

Depreciation is charged as from the time when an asset is available for use over the following useful economic lives:

| | Useful life, years |
|---|---|
| Office equipment and furniture | 1-15 |
| Production equipment and motor vehicles | 1-30 |
| Railcars | 22-40 |
| Production plant and buildings | 1-60 |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**Spare parts**

Major spare parts and equipment intended for repair and maintenance of property, plant and equipment, are included in other non-current assets if the Group intends to use them for more than one year. Spare parts are stated at a lower of the cost and net realizable value. Actual cost consists of cost of purchased materials and, if applicable, direct labor cost and respective part of allocated overheads, incurred to bring spare parts to their existing location and condition. Upon usage, the cost of spare parts is charged to profit or loss.

**Investment property**

Investment property is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. The Group uses the cost model to measure investment property subsequent to initial recognition and accordingly all investment property items are recognized in accordance with IAS 16, except items that meet the criteria to be classified as held for sale (or are included in a disposal group that meets the criteria to be classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that meets the criteria to be classified as held for sale) are measured in accordance with IFRS 5.

An investment property is derecognized upon disposal or when an investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. The difference between net disposal proceeds and carrying amount of an investment property included in the consolidated statement of profit or loss and other comprehensive income in the reporting period in which the property is derecognized.

**Inventories**

Inventories are stated at lower of cost and net realizable value. Actual cost consists of cost of purchased materials and, if applicable, direct labor cost and respective part of allocated overheads, incurred to bring inventory to their existing location and condition. The cost of inventory is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. Any reversal of that impairment loss is recognized immediately in the consolidated profit or loss.

**Leases**

**Key aspects of the Group's accounting policy applicable to leases for reporting purposes prior to 1 January 2019**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, specifically, on whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as a lessor***

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

***The Group as a lessee***

Assets under finance leases are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Payments under operating leases are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognized as a liability and a reduction to expense on a straight-line basis. Contingent rentals under operating leases are recognized as an expense in the period in which they are incurred.

**Key aspects of the Group's accounting policy applicable to leases for reporting purposes after 1 January 2019**

For contracts entered into after 1 January 2019, the Group shall assess whether the contract is, or contains, a lease at contract inception. The Group recognizes a right-of-use asset and the corresponding lease liability under all lease contracts (including subleases and lease of intangible assets), if these contracts convey the right to control the use of an identified asset within a specified period of time in exchange for consideration, except for short-term leases (expiring within 12 months) and lease of low-value assets. For these lease contracts, the Group recognizes lease payments as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Right-of-use assets

The initial value of the right-of-use asset includes the initial value of the corresponding lease liability, lease payments made on or before the lease inception date and any initial direct costs. Subsequently, the right-of-use asset is measured at historical cost less accumulated depreciation and accumulated impairment loss. Right-of-use assets are depreciated using the straight-line method over the expected lease term which ranges from 2 to 48 years under the Group's lease contracts and is calculated based on the contractual lease term, the periods covered by the options to extend or early terminate the lease, and the useful life of the underlying asset.

If the lease transfers ownership of the underlying asset or the value of the right-of-use asset reflects that the Group expects to exercise the purchase option, the corresponding right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation begins on the date of the lease inception.

The Group applies IAS 36 Impairment of Assets to identify impairment of a right-of-use asset and to recognize any identified impairment loss.

Lease liabilities

The lease liability is initially measured at the present value of the future lease payments that are not paid at the lease commencement date and discounted using the lessee's incremental borrowing rate. This rate is defined as the interest rate at which, at the inception of the lease, the lessee could raise borrowed funds for the same period and with the same collateral, required for the receipt of an asset with a value equal to the value of a right-of-use asset under similar economic conditions.

Lease payments included in the lease liability comprise:

- Fixed payments (including in-substance fixed payments), less lease incentives;
- Variable lease payments that depend on an index or a rate. Such payments are initially estimated based on the index or rate as at the date of lease commencement;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if it is reasonably certain that the option will be exercised; and
- Penalties for terminating the lease, if the lease term provides for an option to early terminate the lease.

Subsequently, lease liabilities are measured by increasing the carrying value to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying value to reflect lease payments made.

The Group remeasures the lease liability (and makes an appropriate adjustment to the relevant right-of-use asset) when:

- The lease term has changed or the probability of the purchase option exercise has changed. In this case, the lease liability is remeasured by discounting the revised lease payments using the revised discount rate;
- Lease payments fluctuate due to changes in the index or rate, or changes in expected payment at guaranteed residual value. In this case, the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payment changes due to a change in the floating interest rate, where the revised discount rate is used);
- The lease agreement is modified, and this modification is not treated as a new agreement. In this case, the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.

<u>Sale and leaseback transactions</u>

The Group assesses whether a sale and leaseback transaction meets the requirements of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to be recognized as sale of assets. If the transfer of the asset by the seller which will subsequently act as a lessee meets IFRS 15 requirements, the seller-lessee shall measure the right-of-use asset arising on the leaseback as a part of the previous carrying value of the asset which relates to the right of use retained by the seller-lessee. If the transfer of the asset under the leaseback contract does not meet the requirements of IFRS 15, the seller-lessee shall continue to recognize the transferred asset and shall recognize a financial liability in the amount of proceeds from the transfer. This liability shall be recognized in accordance with IFRS 9.

<u>The Group as a lessor</u>

The Group assesses contracts concluded with lessees to determine whether they qualify as an operating or finance lease. In 2019, all lease contracts where the Group is a lessor were classified as operating leases. Therefore, the Group recognizes lease payments as income on a straight-line basis. All costs, including depreciation costs incurred in generating lease income, are recognized as an expense.

All modifications to operating leases are classified as new leases from the date modifications become effective.

In the normal course of business, the Group often acts as an intermediate lessor and derives income from sublease contracts. Sublease is a transaction in which the Group as an intermediate lessor grants the right to use the underlying asset to the third party, while the lease contract ("the principal lease contract") between the original (or "principal") lessor and lessee remains in force.

The Group classifies a sublease as a financial or operating lease based on the right-of-use asset arising under the principal lease contract. Therefore, with respect to the sublease contract, the Group considers the right-of-use asset to be the underlying asset rather than an item of property, plant and equipment which it leases from the principal lessor. If the sublease contract is concluded for the remaining term of the principal lease, i.e. the sublease term is for the major part of the useful life of the right-of-use asset, the Group as an intermediate lessor classifies this sublease contract as a finance lease. Otherwise, a sublease is classified as an operating lease. At the sublease inception, for sublease accounting purposes, the Group uses the same discount rate it uses for the principal lease contract with adjustments for the amount of initial direct costs related to the sublease.

The Group applies IFRS 16 to all contracts involving the sublease of right-of-use assets. The intermediate lessor recognizes the principal lease contract and the sublease contract as two separate contracts.

**Financial instruments**

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Classification and measurement of financial assets***

All recognized financial assets are subsequently measured at amortized cost or fair value, depending on classification. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the instrument. As at the reporting date, the Group had only financial assets measured at amortized cost.

Amortized cost and effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on a debt instrument paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus any repayments of principal, plus the cumulative amortization determined using the effective interest method for the difference between the initial amount and the maturity amount, adjusted for any expected credit loss allowance. Gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any expected credit loss allowance.

Interest income is measured using the effective interest rate method and recognized in the consolidated statement of profit or loss and other comprehensive income within the *Financial Income* item.

Impairment of financial assets

The Group recognizes allowances for expected credit loss relating to investments in debt instruments recognized at amortized cost, as well as trade and other accounts receivable. The amount of expected credit loss ("ECL") recognized is updated at each reporting date to reflect changes in the credit risk which have occurred since initial recognition of the respective financial asset.

The Group always recognizes lifetime ECL for its trade and other receivables. ECL for these financial instruments is determined based on the Group's credit loss history adjusted for debtor-specific factors, the overall economic situation and an assessment of both current and projected circumstances at the reporting date, including the time value of money, where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in the credit risk since the initial recognition of the respective financial instrument. However, where a credit risk has not increased significantly since initial recognition, the Group creates an allowance for such financial instruments in an amount equal to the following 12-month ECL. The determination of the need to recognize lifetime ECL is based on the identification of a significant increase in the credit risk or probability of default since initial recognition, rather than evidence of financial asset impairment as at the reporting date or an actual default event. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Estimation of ECL is based on the default probability and loss given default. Default probability and loss given default estimation is based on historical data adjusted for forecast data.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset carried at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

***Classification and measurement of financial liabilities***

All recognized financial liabilities are subsequently measured at amortized cost using the effective interest method or fair value through profit or loss (FVTPL). As at the reporting date, the Group had only financial liabilities measured at amortized cost.

Financial liabilities at amortized cost

Financial liabilities that are not (1) contingent liabilities of acquirers in a business combination, (2) held for trading, or (3) classified at FVTPL, are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on a financial liability paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**Provisions**

Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**Current income tax expense**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgment of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

**Deferred income tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized in consolidated financial statements if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
In addition, a deferred tax liability is not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects (at the end of the reporting period) to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Current tax and deferred tax for the year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Revenue recognition**

The Group recognizes revenue from the following major sources:

- Sales of railcars and inventories, including semi-finished goods produced internally (castings, components, spare parts);
- Operating lease of railcars;
- Rail transportation services;

Revenue is measured based on the amount of consideration to which the Group expects to be entitled in accordance with the contractual terms, excluding any amounts received on behalf of third parties.

The Group recognizes revenue when or as a contractual obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer, as follows:

- Revenue from the sale of railcars is recognized when control, i.e. significant risks and rewards of ownership of the asset, is transferred to the customer and the Group has no outstanding obligations to the customer that could affect the acceptance of sold goods. Most of railcar sale contracts with customers provide for the transfer of control to the customer after completing technical inspection of the goods at the manufacturing plant and signing an acceptance act confirming the specification and quality of the goods sold. For the contracts that provide for the delivery of railcars to a certain dispatch location, control is transferred to the customer upon delivery of railcars to the specified location and signing an act of acceptance;
- Rental income is generated principally from leasing of railcars and is recognized on a straight-line basis over the term of the relevant lease;
- Income from the sales of rail-based freight transportation services is recognized in the reporting period when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The Group recognizes revenue in the amount of fees for the provision of rolling stock, while charges for railway infrastructure services (railway freight tariff of PJSC Russian Railways) are borne directly by the customers;
- Revenue from the sale of inventories is recognized upon transfer of control to a customer in accordance with the respective contract with the customer. Some contracts provide for the delivery of goods to the customer, others release the Group from the obligation to pay for the delivery to the customer. The Group reviews the moment of transfer of control under each significant inventory sales contract separately, as the sales contracts for components and casting are concluded on an individual basis.

*Significant financing component*

A number of railcar supply contracts envisage significant advance payments for future supplies to be performed within a period exceeding 12 months from the receipt of the respective advance payment. In determining the transaction price, the Group adjusts the expected amount of consideration for the effects of the time value of money as the advances received from customers provide the Group with a significant benefit of financing the transfer of goods to the customer.

The Group does not adjust the expected amount of consideration for contracts providing for a significant financing component if the period between the date of transfer of promised good or service to a customer and the date of payment for that good or service will be one year or less. Advances received under such contracts are treated as short-term where the respective supplies are expected in the same month of the following year or earlier.

*Warranty liabilities under supply contracts*

In accordance with the Group's standard contractual terms, the warranty period for railcars varies on average from 2 to 8 years (up to the date of the first depot repair for railcars produced and sold in the same reporting period). The Group does not adjust revenue for warranty liabilities as the historical information of warranty returns indicates near-zero returns from customers.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Government grants**

The Group receives the following types of government grants:

- Compensation of interest expense on bank loans;
- Grants related to assets, that is – compensation of expenses for acquisition of long-term assets (railcars) and compensation of expenses for purchase of materials for production of railcars.
- Grants related to compensation of transportation costs incurred on sales of produced railcars.

Government grants are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with the conditions attached.

Government grants relating to compensation of interest expense under bank loans are credited to profit or loss and other comprehensive income over the periods of the related interest expense unless this interest was capitalized into the cost of property, plant and equipment, in which case they are deducted from the cost of the respective items of property, plant and equipment and credited to the profit or loss and other comprehensive income on a straight-line basis over the expected lives of these assets.

Government grants related to assets are deducted from the carrying value of the related asset in the consolidated statement of financial position. Grants are recognized in profit or loss on a straight-line basis over the period of use of a depreciated asset and reduce the amount of depreciation expense, or are recognized immediately in profit or loss if the related asset is sold or disposed of.

Government grants related to compensation of the Group's transportation and other operating costs reduce the amount of such expenses in the consolidated statement of profit or loss and other comprehensive income.

**Share capital**

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**Additional paid-in capital**

Equity contributions made by shareholders, whereby shares are not issued, are recorded as additional capital within equity whereby such capital contributions do not carry any interest and any future return to the shareholder is at the Group's discretion.

**Loans receivable from the parent**

Loans receivable from the parent and other companies under common control and other accounts receivable from these companies are recognized as an asset or a decrease in equity based on the substance of each separate transaction giving rise to such debt. Usually, loans receivable from the parent and other companies under common control are presented as a decrease in equity. These loans may be recognized as an asset where all material arrangements of this transaction (including interest, repayment terms, intention and practical ability to repay the debt, size and adequacy of collateral, etc.) are comparable with the market ones, and they are expected to be repaid in a relatively short period of time.

**Employee benefits**

The Russian companies of the Group are obliged to make defined contributions to the State Pension Fund of the Russian Federation in accordance with the effective Russian legislation. Contributions to the Pension Fund of the Russian Federation related to a defined contribution plan are recognized in the profit or loss in the period to which they relate.

In the Russian Federation, all payments to extra-budgetary funds including contributions to the State Pension Fund are collected through social security charges calculated by the application of a rate from 10% to 30% to the annual gross remuneration of each employee. The rate of the contribution to the State Pension Fund of the Russian Federation varies from 10% to 22%. If the annual gross remuneration of an employee exceeds the limit of RUB 1 150 thousand (2019 limit) the rate of 10% is applied to the excess amount to determine the amount of the respective contributions. In 2019 contributions were limited to the employee's income threshold of RUB 865 thousand, upon the achievement of which contributions are not charged.

**Contractual commitments**

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the notes to the consolidated financial statements.

**Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements unless they arise as a result of a business combination. Contingencies attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

## 3. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS

**New and revised Standards and Interpretations adopted in the current period and applicable to the Group's consolidated financial statements**

Starting from 1 January 2019, when preparing its consolidated financial statements, the Group applies the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC):

- IFRS 16 *Leases;*
- IFRIC 23 *Uncertainty Over Income Tax Treatments;*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation;*
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures;*
- Amendments to IAS 19 *Employee Benefits;*
- Annual Improvements to IFRSs 2015-2017 Cycle.

The Group did not early adopt any other standards, amendments and interpretations in issue but not yet effective. The new and revised International Financial Reporting Standards had no significant impact on the Group's consolidated financial statements for the year ended 31 December 2019, except for the effect of IFRS 16 *Leases* as described below.

**IFRS 16 *Leases***

<u>Effect of adoption</u>

On 1 January 2019, the Group adopted the provisions of IFRS 16 *Leases* issued by the International Accounting Standards Board ("IASB") in January 2016. IFRS 16 introduces new requirements and a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 superseded IAS 17 *Leases* and the related interpretations, when it became effective.

***(in millions of Russian Rubles, unless otherwise indicated)***

IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by a customer for a period of time in exchange for consideration, and requires to recognize a right-of-use asset and the corresponding lease liability at the lease inception date for all leases (i.e., all on balance sheet), except for short-term leases and leases of low value assets. Thus, distinctions of operating leases and finance leases are removed.
The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below, and the key aspects of the accounting policy chosen by the Group to account for and identify lease arrangements are disclosed in Note 2.

Transition provisions

Based on the transition provisions of IFRS 16, the Group chose to adopt the modified retrospective approach in which lease liabilities are measured at the present value of future (remaining) payments discounted using incremental borrowing rates as at 1 January 2019, and right-of-use assets are initially measured as liabilities adjusted for lease prepayments or accrued lease payments. The comparative information for the comparable period has not been not restated in accordance with IFRS 16 requirements.

The cumulative impact of IFRS 16 transition comprises:

| | **1 January 2019 (before adoption)** | **Adoption of IFRS 16** | **1 January 2019 (after adoption)** |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 80 939 | (21 357) | 59 582 |
| Right-of-use assets | - | 23 338 | 23 338 |
| Trade and other receivables | 8 490 | (4 215) | 4 275 |
| Intangible assets | 6 616 | (507) | 6 109 |
| **EQUITY AND LIABILITIES** | | | |
| Finance lease liabilities[1] | 21 470 | (21 470) | - |
| Lease liabilities[1] | - | 18 730 | 18 730 |
| Trade and other payables | 4 893 | (54) | 4 839 |

[1]Short-term and long-term portions

Leases previously classified as operating leases

When determining leases previously classified as operating leases, the Group applied the practical expedient at the IFRS 16 adoption date which allows not to reassess whether the lease contract is, or contains, a lease. Accordingly, the lease definition under IFRS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* shall be applied for all leases entered into or modified before 1 January 2019.

Also, the Group applies the following permitted practical expedients at the date of the standard adoption with respect to each lease previously classified as an operating lease:

- Permission not to apply IFRS 16 requirements with respect to leases with the lease term expiring within 12 months from 1 January 2019 and to include lease payments under such leases into operating expenses on a straight-line basis over the lease term;
- Permission to apply a single discount rate to the portfolio of lease contracts with similar characteristics;
- Permission not to conduct an impairment test at the date of initial recognition while relying on the analysis of onerous lease contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the initial application date;
- Permission to exclude initial direct costs from the value of a right-of-use asset at the date of initial application;
- Permission to use hindsight, in particular, when determining the lease term for lease contracts providing for extension or termination options.

*(in millions of Russian Rubles, unless otherwise indicated)*

At the time of the transition to IFRS 16, the Group recognized lease liabilities (short-term and long-term portion) totaling RUB 1 475 million which were not recognized previously since leases in which the Group acts as a lessee were recognized as operating leases under IAS 17 previously effective. The amount of recognized liabilities is the present value of future (at the time of the first application) lease payments discounted using the lessee's incremental borrowing rate.

As at 1 January 2019, the lessee's weighted average incremental borrowing rate used in calculations was 5.55 - 9.93% for currency contracts and 10.90 - 12.30% for contracts nominated in rubles.

As at 1 January of 2019, the Group also recognized right-of-use assets arising from IFRS 16 application and related to the respective contract types totaling RUB 1 982 million. Right-of-use assets are amortized using the straight-line basis over lease terms, which range from 2 to 48 years.

| | |
|---|---|
| **Future minimum lease payments under operating leases as at 1 January 2019** | **2 112** |
| Effect of discounting | (691) |
| Lease payables | 54 |
| **Lease liabilities recognized as at 1 January 2019** | **1 475** |
| Lease rights to land plots received on acquisition of a subsidiary (Note 6) | 507 |
| **Right-of-use assets recognized as at 1 January 2019** | **1 982** |
| **Overall effect on accumulated loss as at 1 January 2019** | - |

<u>Leases previously classified as finance leases and sale and leaseback transactions before the initial application date</u>

The carrying value of right-of-use assets and lease liability at the initial application date is the carrying value of the lease asset and the carrying value of the lease liability immediately at the date of IFRS 16 adoption.

At the date of the transition to IFRS 16, the Group had sale and leaseback transactions, which were treated as sale and finance lease under IAS 17, therefore, the Group accounts for leaseback transactions using the same approach as for any other finance lease, which existed at the date of initial application.

At the time of the transition to IFRS 16, the Group reclassified from property, plant and equipment to right-of-use assets the carrying value of railcars earlier received by the Group under sale and leaseback agreements, which were accounted for as finance lease under IAS 17. Accordingly, right-of-use assets totaled RUB 23 338 million as at 1 January 2019. "Finance lease liabilities" were replaced by "lease liabilities" and totaled RUB 21 470 million at the transition date. The Group applied the weighted average borrowing rate of 11% with respect to lease liabilities as at 1 January 2019.

<u>The Group as a lessor</u>

The Group made a reassessment of its sublease contracts that were classified as operating leases under IAS 17 and were in force at the IFRS 16 adoption date, and determined that all these contracts qualified for operating leases for the purposes of the respective standard.

**New and revised IFRSs not yet effective**

- Amendments to IAS 1 and IAS 8 *Definition of Materiality;*
- Amendments to IFRS 3 *Definition of Business;*
- Annual Improvements to IAS 1 (2010—2012 Cycle Amendments) *Classification of Liabilities as Current or Non-Current;*
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Group does not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods.

### Critical accounting estimates

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Depreciation periods for property, plant, and equipment***

The Group assesses the remaining useful lives of items of property, plant and equipment at least annually at the end of each reporting period or at the date of revaluation of property, plant and equipment carried at revalued cost. If expectations differ from previous estimates, the difference is recognized as a change in accounting estimates, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying amounts of property, plant and equipment and on depreciation expense for the period.

***The key assumptions used in the calculation of fair values of property, plant and equipment***

The Group recognizes its property, plant and equipment included in the *Production Plant and Buildings* and *Production Equipment and Motor Vehicles* categories at revalued cost (fair value) using a number of accounting estimates.

The general practice presumes determining the fair value of general-purpose assets based on market data as the key source of information that predetermines the use of the so-called comparative approach. Where there is no active market or market information for specific categories of assets, other sources and approaches may be used. Special-purpose assets that do not have active market on a stand-alone basis account for roughly 95% of the total carrying value of the Group's property, plant and equipment carried at revalued cost. Special-purpose assets are measured using the cost method that presumes the determination of the residual cost of replacement.

Since the average age of the Group's production property, plant and equipment is around 5 to 6 years, in determining the full replacement cost under the cost method, the Group used the historical cost indexation approach that ensures sufficient accuracy for a relatively new property.

***Impairment of goodwill and intangible assets under development***

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and the intangible assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Allocation of goodwill to CGUs is disclosed in Note 17.

Annually the Group performs the following procedures to test goodwill and intangible assets for impairment:

- Analyzing significant events which could have influenced cash flows (restructuring of the Group, implementation of investment programs, change in market trends, terms of financing and taxation, etc.);
- Reviewing the list (update of the current list) of identifiable assets and cash-generating units ("CGU") which will be further tested for impairment. Those significant CGUs are reviewed, at which goodwill have been allocated (this could be separate business units, subsidiaries or segments). Upon completion of the list, a factor of materiality is considered, as well as impairment indicators (reduction in the value of net assets, incompletion of the budget, accounting losses);
- Identifying a discounting rate, reflecting an adjusted weighted cost of capital of the Group;
- Summarizing the information on the value of assets including goodwill (property, plant and equipment, intangible assets, construction in progress), expected in a middle-term (no more than 10 years) cash inflows-outflows and forecasted changes in the value of the assets. For this purpose, management uses budgets and forecasts prepared during the planning process.

The results of the impairment test in respect of goodwill and intangible assets, as well as estimates used by the Group in performing those tests, are disclosed in Notes 16 and 17, respectively.

**Critical judgments in applying accounting policies**

***Classification of the Group's operations related to the sale of railcars from own fleet***

The Group regularly generates revenues from the sale of previously leased old railcars in the normal course of business. In accordance with IAS 16 after the approval of the decision to sell the railcars they were transferred to inventories at their carrying value. Income from the sale of such railcars are included in the revenue line item of the consolidated statement of profit or loss and other comprehensive income of the Group for the years ended 31 December 2019 and 2018, in particular the sales of railcars item of the respective disclosure (Note 8). Expenses related to the disposal of the old railcar fleet were included in the cost of sale item of the consolidated statement of profit or loss and other comprehensive income and disclosed in the respective note (Note 9).

In preparing the consolidated statement of cash flows, the Group's management considered requirements of IAS 7, which specifies that cash payments made to produce assets held for lease and subsequently held for sale are classified as cash flows from operating activities, and cash proceeds from the lease and subsequent sale of such assets are also treated as cash flows from operating activities. Accordingly, cash paid for the production/ (acquisition) of railcars and received from the sale of own railcars are included in operating activities in the consolidated statement of cash flows.

***Lease classification***

When analyzing lease and sublease contracts where the Group acts as a lessor, the Group's management is expected to conduct a thorough analysis to distinguish between a finance lease and an operating lease which mostly depends on the substance of the transaction rather than the form of the contract. Situations which may lead to the lease being treated as a finance lease are considered both individually and in aggregate and not always allow to make an unambiguous conclusion. If other factors clearly evidence that there is no transfer of substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease.

***(in millions of Russian Rubles, unless otherwise indicated)***

## 5. SEGMENT INFORMATION

The Group is divided into business units on the basis of goods manufactured and services rendered, and incorporates two reporting segments:

- The *Production* segment is involved in manufacturing and sale of railcars;
- The *Lease* segment that provided operating lease of railcars was disposed of in 2019 and was retrospectively eliminated from the reporting segments for the purposes of this Note.

The Group's principal business activities are within the Russian Federation. Other activities of the Group do not constitute a separate reporting segment and are included in the Other segments. Accounting principles of the reportable segments are consistent with the Group accounting policies described in Note 2. The Group's management assesses performance of operating segments based on profit before tax adjusted for the following amounts in the consolidated statement of profit or loss and other comprehensive income ("EBITDA"):

- Finance costs (Notes 11 and 22);
- Finance income (Note 10);
- Foreign exchange gain/(loss), net; Depreciation and amortization of property, plant, and equipment and intangible assets (Notes 8 and 9);
- Impairment of non-current non-financial assets (Notes 14 and 16);
- Loss on fair value adjustments less costs to sell of assets held for sale (Note 7).

This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Segment information for the year ended 31 December 2019 and 2018 is presented as follows:

| **31 December 2019** | **Production segment** | **Other segments** | **Total segments** | **Adjustments and eliminations** | **Consoli-dated** |
|---|---|---|---|---|---|
| **Revenue** | **78 042** | **4 407** | **82 449** | **(17 979)** | **64 470** |
| including inter-segment revenue | 17 | 2 816 | 2 833 | (2 833) | - |
| **Cost of sales, including:** | **(65 522)** | **(6 052)** | **(71 574)** | **18 238** | **(53 336)** |
| - Inventories | (46 092) | | | | |
| - Payroll | (8 264) | | | | |
| - Property tax | (334) | | | | |
| - Maintenance and repairs of railcars[1] | (395) | | | | |
| - Depreciation and amortization | (3 911) | | | | |
| - Write-down of inventories to net realizable value | (378) | | | | |
| - Other | (6 148) | | | | |
| Selling, general and administrative expenses | (1 422) | (1) | (1 423) | (1 472) | (2 895) |
| Other operating income, net | 56 | (4) | 52 | (153) | (101) |
| Share of profit of associates and joint ventures | 43 | 33 | 76 | - | 76 |
| Depreciation and amortization | 3 911 | 620 | 4 531 | (833) | 3 698 |
| **EBITDA** | **15 108** | **(997)** | **14 111** | **(2 199)** | **11 912** |
| Finance income | 50 | 4 497 | 4 547 | (1 042) | 3 505 |
| Finance costs | (4 948) | (4 748) | (9 696) | 976 | (8 720) |
| Impairment of non-current non-financial assets | (490) | - | (490) | - | (490) |
| Loss on fair value adjustments less costs to sell of assets held for sale | - | - | - | (209) | (209) |
| Depreciation and amortization | | | | | (3 698) |
| Foreign exchange loss, net | | | | | (105) |
| **Profit before tax** | | | | | **2 195** |

***(in millions of Russian Rubles, unless otherwise indicated)***

| **31 December 2018** | **Production segment** | **Other segments** | **Total segments** | **Adjustments and eliminations** | **Consoli-dated** |
|---|---|---|---|---|---|
| **Revenue** | **67 077** | **4 204** | **71 281** | **(1 262)** | **70 019** |
| including inter-segment revenue | 24 | 2 993 | 3 017 | (3 017) | - |
| **Cost of sales, including:** | **(63 853)** | **(5 762)** | **(69 615)** | **4 048** | **(65 567)** |
| - Inventories | (45 874) | | | | |
| - Payroll | (7 207) | | | | |
| - Property tax | (150) | | | | |
| - Maintenance and repairs of railcars[1] | (486) | | | | |
| - Depreciation and amortization | (4 625) | | | | |
| - Write-down of inventories to net realizable value | (255) | | | | |
| - Other | (5 256) | | | | |
| Selling, general and administrative expenses | (1 376) | (857) | (2 233) | (1 686) | (3 919) |
| Other operating income, net | 43 | - | 43 | 32 | 75 |
| Share of loss of associates and joint ventures | (98) | 96 | (2) | - | (2) |
| Depreciation and amortization | 4 660 | 231 | 4 891 | (87) | 4 804 |
| **EBITDA** | **6 453** | **(2 088)** | **4 365** | **1 045** | **5 410** |
| Finance income | 172 | 3 463 | 3 635 | (1 871) | 1 764 |
| Finance costs | (6 374) | (8 501) | (14 875) | 1 916 | (12 959) |
| Impairment of non-current non-financial assets | (1 580) | - | (1 580) | - | (1 580) |
| Depreciation and amortization | | | | | (4 804) |
| Foreign exchange gain, net | | | | | 51 |
| **Loss before tax** | | | | | **(12 118)** |

[1] The cost of maintenance and repairs of railcars in the *Production* segment comprises the cost of railcar repair services sold by the segment, including the cost of inventories, payroll and other costs.

In 2019, the Group decided to reassign 1400 railcars received by the Group under leaseback agreements with a carrying value of RUB 1 844 million; proceeds from their sale to an external customer was RUB 2 510 million, and the effect on EBITDA was RUB 665 million. In 2019, new railcars were produced to be transferred to one of the Group's external customers under leaseback agreements and included in the disposal group as at 31 December 2019.
The intersegment revenue was RUB 17 600 million; the cost of production was RUB 14 861 million; and the effect on EBITDA was RUB (2 739) million. These transactions are disclosed in the *Adjustments and Eliminations* section and their total effect on EBITDA amounted to RUB (2 074) million in 2019.

In 2018, the Group sold railcars from own fleet; their carrying value at the date of sale was RUB 2 500 million; revenue from the sale amounted to RUB 3 408 million; and the effect on EBITDA amounted to RUB 908 million. In 2018, new railcars were produced and transferred to the *Lease* segment for a subsequent lease out. The inter-segment revenue from the transfer was RUB 1 112 million; the cost of production was RUB 1 157 million; and the effect on EBITDA was RUB 45 million. These transactions are disclosed in the *Adjustments and Eliminations* section and their total effect on EBITDA amounted to RUB 953 million in 2018.

Breakdown of the Group's revenue by main types of sold products and rendered services is presented in Note 8.

In 2019 and 2018, the key external customer of the *Production* segment was PJSC GTLK, which accounted for 48% and 58% of the segment's external sales, respectively.

Revenue in other segments includes intragroup sales of railcar components by LLC NPC Springs, intragroup sales of rights to R&D results and patents by "VNICTT" LLC and management services provided by PJSC "RPC UWC".

Segment assets and liabilities, capital expenditures and accumulated depreciation are not disclosed, as this information is not provided to the chief operating decision maker.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 6. ACQUISITION OF SZIPK JSC

In the second quarter of 2017, the Group entered into an agreement for the acquisition of 100% shares of SZIPK JSC. During 2018, the Group paid the full amount in accordance to the acquisition agreement of RUB 3 200 million. The Group obtained control over the acquired company in September 2018, upon the completion of the relevant registration procedures. Accordingly, the company was included in the Group as of 11 September 2018.

SZIPK JSC is an operating company that provides heat and power supplies for the Group's Tikhvin manufacturing facility, performs internal transfers within the facility, and leases production and offices premises to the Group's subsidiaries.

The acquisition was accounted for using estimated values of assets and liabilities acquired based on the assumption that they were equal to their fair value, as no other information was available at that time in the consolidated financial statements for the year ended 31 December 2018.
In 2019, the Group obtained a third party valuation report on the fair value of the assets and liabilities of SZIPK JSC.

Accordingly, the Group completed allocation of the acquisition cost of SZIPK JSC and adjusted retrospectively the comparative information for 2018 by restating the fair value of the following assets and liabilities at the acquisition date:

| | Provisional value (as previously reported) | Fair value (as restated) |
|---|---|---|
| Property, plant and equipment | 3 125 | 1 282 |
| Intangible assets | - | 507 |
| Deferred tax assets | 15 | 15 |
| Inventories | 29 | 29 |
| Long-term loans receivable | 555 | 555 |
| Trade and other receivables | 673 | 673 |
| Prepayments to suppliers and other current assets | 20 | 20 |
| VAT receivable | 3 | 3 |
| Cash and cash equivalents | 82 | 82 |
| **Total assets** | **4 502** | **3 166** |
| Long-term loans received | (1 477) | (1 477) |
| Deferred tax liabilities | (462) | (195) |
| Trade and other payables | (53) | (53) |
| Advances received and other current liabilities | (46) | (46) |
| **Total liabilities** | **(2 038)** | **(1 771)** |
| **Net assets acquired** | **2 464** | **1 395** |
| Goodwill arising on acquisition | 736 | 1 805 |
| **Total purchase consideration** | **3 200** | **3 200** |
| Cash and cash equivalents of subsidiaries acquired | (82) | (82) |
| Prepayment for subsidiary acquisition | (2 000) | (2 000) |
| **Net cash outflow arising on acquisition** | **1 118** | **1 118** |

Goodwill arising on acquisition was due to expected synergies since the acquiree is located on the same site as the Group's main manufacturing companies and SZIPK's operations are focused on the provision of services to the companies of the Group.

The subsidiary was acquired in late 2018 and, therefore, did not contribute any significant revenue or profit/(loss) to the Group's consolidated profit or loss for 2018. In 2018 most of sales of SZIPK JSC were done to subsidiaries of the Group and, therefore, if the acquisition had occurred on 1 January 2018, the Group's consolidated revenue for 2018 would not have changed significantly and the Group's consolidated loss would have decreased by RUB 48 million.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 7. DISCONTINUED OPERATIONS

On 23 December 2019 the Board of Directors of PJSC "RPC UWC" made a resolution to define the Group's business priority and to approve the termination of operations of the *Railcar Fleet Lease* segment, which is the *Lease* reporting segment (Note 5), which comprised all of the Group's railcar fleet lease transactions; accordingly, all transactions of the Group's leasing subsidiaries, which conducted its operations in the *Lease* segment, were included in discontinued operations for the years ended 31 December 2019 and 2018.

Assets of the Group's subsidiaries that comprised the *Lease* segment and liabilities directly associated with those assets mainly represented by the Group's railcar fleet of 15 731 railcars (Notes 14 and 15) and financial liabilities under railcar fleet leaseback agreements (Notes 30 and 31) were classified as a disposal group held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale* (IFRS 5) and are presented separately in the consolidated statement of financial position. As at the reporting date, the Group entered into a number of agreements to implement the resolution (Note 35).

In determining the fair value of assets held for sale less costs to sell, the Group identified a loss of RUB 209 million. This adjustment resulted in the restatement of the carrying amount of certain items of property, plant and equipment and right-of-use assets to their fair value by decreasing it by RUB 36 million and RUB 173 million, respectively.

Discontinued operations included in the consolidated statement of profit or loss and other comprehensive income for 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Revenue | 8 203 | 6 921 |
| Other operating income | 1 | - |
| | **8 204** | **6 921** |
| Expenses, including: | (5 866) | (4 257) |
| - Cost of sales | (1 923) | (1 646) |
| - Selling, general and administrative expenses | (65) | (58) |
| - Finance income | 53 | - |
| - Finance costs and foreign exchange loss | (3 931) | (2 553) |
| Profit before tax | 2 338 | 2 664 |
| Income tax expense from discontinued operations | (465) | (548) |
| **Net profit from discontinued operations** | **1 873** | **2 116** |

Cash flows from discontinued operations were as follows:

| | 2019 | 2018 |
|---|---|---|
| Net cash | | |
| - (used in)/generated from operating activities | (12 063) | 3 538 |
| - generated from financing activities | 20 890 | 10 734 |
| **Net cash inflows** | **8 827** | **14 272** |

*(in millions of Russian Rubles, unless otherwise indicated)*

The *Lease* segment operations classified as held for sale have the following classes of assets and liabilities as at the reporting date:

| | 31 December 2019 |
|---|---|
| Right-of-use assets | 18 622 |
| Property, plant and equipment | 16 250 |
| Deferred tax assets | 303 |
| VAT receivable | 18 |
| **Total assets classified as held for sale** | **35 193** |
| Loans and borrowings | 6 000 |
| Lease liabilities | 18 604 |
| Financial liabilities under leaseback transactions | 17 257 |
| Advances received and other current liabilities | 176 |
| **Total liabilities directly associated with assets held for sale** | **42 037** |
| **Net liabilities of disposal group** | **(6 844)** |

### *Other liabilities and collateral of the disposal group*

The Group's lease liabilities are secured by the lessor's title to assets provided to the Group under leaseback agreements. Pledged right-of-use assets related to the underlying asset in the form of railcars received under the leaseback agreement were RUB 18 405 million as at 31 December 2019 (31 December 2018: RUB 21 357 million included in property, plant and equipment). The carrying value of property, plant and equipment (rolling stock) pledged as collateral under a leaseback transaction with GTLK PJSC is RUB 14 467 million as at 31 December 2019 (31 December 2018: RUB 0 million).

As at 31 December 2019, a 100% ownership interest in "RAIL1520" LLC, a subsidiary with assets and liabilities related to the disposal group, is pledged with JSC Gazpombank.

### *Related party balances related to transactions and agreements of the disposal group*

As at 31 December 2019, the Group is controlled by the CBR (Note 1), accordingly, since as at the reporting date the CBR indirectly, through its subsidiaries, exercises control over the Group, significant balances and settlements on transactions with state-owned companies are considered to be transactions with related parties.

Liabilities directly associated with assets held for sale include loans and borrowings received from these companies, lease liabilities, financial liabilities under the leaseback transaction totaling RUB 6 000 million, RUB 18 604 million and RUB 17 257 million, respectively. Finance costs related to these transactions and discontinued operations of RUB 318 million are included in net profit from discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 8. REVENUE

The Group's revenue from continuing operations comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| Sales of railcars | 58 614 | 64 785 |
| *including from the Group's own railcar fleet* | *2 510* | *3 408* |
| Sales of castings, components and other inventories (incl. spare parts) | 3 441 | 3 460 |
| Rail transportation services | 873 | 678 |
| Revenue from repair services | 444 | 482 |
| Other revenue | 1 098 | 614 |
| **Total revenue** | **64 470** | **70 019** |

In 2019, the Group's management decided to reassign 1 400 railcars received by the Group under leaseback agreements and included in right-of-use assets (Note 15) with the carrying value of RUB 1 845 million; the revenue from the sale was RUB 2 510 million. In 2018, the Group's management decided to sell railcars from own fleet with a carrying value of RUB 2 500 million to third parties. The revenue from the sale amounted to RUB 3 408 million.

## 9. COST OF SALES

Cost of sales of the Group from continuing operations comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| Raw materials used in production | 35 183 | 44 220 |
| Carrying value of railcars sold from own fleet (Note 8) | 1 845 | 2 500 |
| Payroll and social contributions | 6 671 | 7 508 |
| Depreciation and amortization | 3 562 | 4 733 |
| Write-down of inventories to net realizable price | 386 | 272 |
| Empty freight costs | 334 | 258 |
| Property tax | 255 | 149 |
| Other | 5 100 | 5 927 |
| **Total cost of sales** | **53 336** | **65 567** |

## 10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses of the Group from continuing operations comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| Payroll and social contributions | 745 | 1 983 |
| Information and consulting services | 703 | 462 |
| Lease payments | 403 | 387 |
| Advertising costs | 85 | 71 |
| Railcar-sales related costs | 82 | 175 |
| Transportation costs for the delivery of finished goods to the buyer | 55 | 185 |
| Other | 822 | 656 |
| **Total selling, general and administrative expenses** | **2 895** | **3 919** |

*(in millions of Russian Rubles, unless otherwise indicated)*

## 11. FINANCE INCOME

Finance income of the Group from continuing operations comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| Reversal of allowance for expected credit losses on loans receivable (Note 23) | 1 829 | - |
| Interest income on loans receivable | 681 | 910 |
| Interest income on deposits, cash and equivalents | 606 | 800 |
| Recalculation of effective interest rate on disposal of financial assets | 334 | - |
| Discount on accounts receivable | 55 | 54 |
| **Total finance income** | **3 505** | **1 764** |

## 12. FINANCE COSTS

Finance costs of the Group from continuing operations comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| Interest expense on loans and borrowings | 4 302 | 6 728 |
| Interest expense on bonds | 2 775 | 2 673 |
| Significant financing component of contracts with customers | 1 236 | 462 |
| Bank commissions | 214 | 344 |
| Interest expense on lease liabilities (Note 31) | 124 | - |
| Increase in allowance for expected credit losses on loans receivable (Note 23) | 69 | 1 759 |
| Cost of guarantees and sureties | - | 993 |
| **Total finance costs** | **8 720** | **12 959** |

In 2018, the *Bank Commissions* line included expenses related to write-off of bank commissions and other expenses related to early repayment of bank loans totaling RUB 134 million.

## 13. INCOME TAX

Income tax expense attributable to continuing operations recognized in the consolidated statement of profit or loss and other comprehensive income comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| ***Current income tax*** | | |
| Current income tax expense | (765) | (301) |
| Adjustment of income tax of prior periods | (82) | 192 |
| ***Deferred income tax*** | | |
| Origination and reversal of temporary differences | (57) | 334 |
| Effect of change in tax rate | (29) | - |
| **Total income tax (expense)/benefit for the current year included in the statement of profit or loss** | **(933)** | **225** |

*(in millions of Russian Rubles, unless otherwise indicated)*

As of 31 December 2019, the income tax rates applicable to the entities of the Group were as follows:

- RF – 20%;
- BVI – 0%;
- Cyprus – 12.5%;
- USA – 28%.

Below is a reconciliation of income tax calculated using the income tax rate effective in the Russian Federation to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income:

| | 2019 | 2018 |
|---|---|---|
| **Profit/(loss) before income tax on continuing operations** | **2 195** | **(12 118)** |
| Tax at the corporation tax rate of 20% | (439) | 2 424 |
| Tax effect of items, which are not deductible or assessable for taxation purposes: | | |
| Unrecognized tax losses of Russian and foreign subsidiaries of the Group | (294) | (760) |
| Recognition of previously unrecognized deferred tax asset on tax losses | 133 | - |
| Reduction of current income tax for previously unrecognized deferred tax asset on tax losses | 263 | - |
| Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group | (357) | (1 604) |
| Adjustment of income tax of prior periods | (82) | 192 |
| Other items | (157) | (27) |
| **Income tax (expense)/benefit** | **(933)** | **225** |

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

As at 31 December 2019 and 2018, net deferred tax assets were as follows:

| | 2019 | 2018 (restated) |
|---|---|---|
| Tax losses carried forward in Russian companies of the Group | 5 540 | 5 610 |
| Trade and other receivables | 73 | 203 |
| Accruals | 27 | 233 |
| Inventories | 12 | (74) |
| Property, plant and equipment | (4 307) | (8 273) |
| Intangible assets | (91) | (290) |
| Lease liabilities and right-of-use assets | (90) | - |
| Finance lease liabilities | - | 4 438 |
| Other | (19) | 58 |
| **Deferred tax asset, net** | **(1 145)** | **1 905** |

***(in millions of Russian Rubles, unless otherwise indicated)***

The movements in deferred tax during the years ended 31 December 2019 and 2018 were as follows:

| | **2019** | **2018 (restated)** |
|---|---|---|
| Deferred tax asset at the beginning of the year, net | 1 905 | 2 470 |
| Deferred tax (expense)/benefit | (86) | 334 |
| Deferred tax (expense)/benefit on discontinued operations | (371) | 224 |
| Deferred tax liability acquired through business combination | - | (180) |
| Deferred tax liability on revaluation of property, plant and equipment | - | (943) |
| Deferred tax asset reclassified as held for sale | (303) | - |
| **Deferred tax asset at the end of the year, net** | **1 145** | **1 905** |

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as at 31 December 2019 and 2018:

| | **2019** | **2018 (restated)** |
|---|---|---|
| Deferred tax asset | 4 006 | 3 454 |
| Deferred tax liability | (2 861) | (1 549) |
| **Deferred tax asset, net** | **1 145** | **1 905** |

As at 31 December 2019 and 2018, temporary differences associated with undistributed earnings of subsidiaries are not recognized in the consolidated financial statements as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 14. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying value of property, plant and equipment were as follows:

| | Railcars | Equipment and motor vehicles | Production plant and buildings | Office equipment and furniture | Construc-tion-in-progress[1] | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 1 January 2018** | **33 362** | **36 752** | **24 413** | **361** | **821** | **95 709** |
| Additions | 131 | 1 | - | 2 | 3 236 | 3 370 |
| Transfers | - | 1 668 | 238 | 46 | (1 952) | - |
| Acquisition of a subsidiary (Note 6) | - | 488 | 785 | 1 | 8 | 1 282 |
| Disposals | (90) | (80) | - | (2) | (68) | (240) |
| Gain on revaluation | - | 2 246 | 2 468 | - | - | 4 714 |
| Netting of accumulated depreciation on revaluation | - | (7 738) | (1 500) | - | - | (9 238) |
| Railcar fleet additions | 1 333 | - | - | - | (1 333) | - |
| Railcar fleet sales | (3 745) | - | - | - | - | (3 745) |
| Other internal transfers | (3 610) | - | - | - | - | (3 610) |
| **At 31 December 2018 (restated)** | **27 381** | **33 337** | **26 404** | **408** | **712** | **88 242** |
| *Effect of application of IFRS 16 (Note 3)* | *(25 725)* | - | - | - | - | *(25 725)* |
| **At 1 January 2019** | **1 656** | **33 337** | **26 404** | **408** | **712** | **62 517** |
| Additions | 253 | 56 | - | - | 16 883 | 17 192 |
| Transfers | - | 1 159 | 239 | 24 | (1 422) | - |
| Disposals | - | (261) | (6) | (17) | (12) | (296) |
| Transfer to other non-current assets | - | - | (25) | - | - | (25) |
| Railcar fleet additions | 14 861 | - | - | - | (14 861) | - |
| Reclassified as held for sale (Note 7) | (16 770) | - | - | - | - | (16 770) |
| **At 31 December 2019** | **-** | **34 291** | **26 612** | **415** | **1 300** | **62 618** |
| **Accumulated depreciation and impairment** | | | | | | |
| **At 1 January 2018** | **8 234** | **5 947** | **1 076** | **266** | **(51)** | **15 472** |
| Depreciation charge | 1 101 | 3 567 | 848 | 72 | - | 5 588 |
| Disposals | (11) | (2) | - | (1) | - | (14) |
| Railcar fleet sales | (1 245) | - | - | - | - | (1 245) |
| Netting of accumulated depreciation on revaluation | - | (7 738) | (1 500) | - | - | (9 238) |
| Impairment loss | - | 350 | - | - | - | 350 |
| Other internal transfers | (3 610) | - | - | - | - | (3 610) |
| **At 31 December 2018 (restated)** | **4 469** | **2 124** | **424** | **337** | **(51)** | **7 303** |
| *Effect of application of IFRS 16 (Note 3)* | *(4 368)* | - | - | - | - | *(4 368)* |
| **At 1 January 2019** | **101** | **2 124** | **424** | **337** | **(51)** | **2 935** |
| Depreciation charge | 434 | 2 905 | 808 | 43 | - | 4 190 |
| Disposals | - - | (84) | (1) | (16) | - | (101) |
| Impairment loss | - | 19 | - | 1 | 54 | 74 |
| Loss on fair value adjustments less costs to sell of assets held for sale | 36 | - | - | - | - | 36 |
| Reclassified as held for sale (Note 7) | (571) | - | - | - | 51 | (520) |
| **At 31 December 2019** | **-** | **4 964** | **1 231** | **365** | **54** | **6 614** |
| **Net book value** | | | | | | |
| **At 31 December 2018** | **22 912** | **31 213** | **25 980** | **71** | **763** | **80 939** |
| **At 31 December 2019** | **-** | **29 327** | **25 381** | **50** | **1 246** | **56 004** |

[1] Construction in progress includes primarily capitalized expenses for the construction of the railway car manufacturing plant and equipment being prepared for installation and use.

*(in millions of Russian Rubles, unless otherwise indicated)*

As at 31 December 2019, following the resolution of the Board of Directors of PJSC "RPC UWC" to terminate operations of the *Railcar Fleet Lease* segment, the *Railcars* group of property, plant and equipment with a carrying value of RUB 16 250 million was transferred to assets held for sale (Note 7).

Information on property, plant and equipment pledged as collateral as at 31 December 2019 and 2018 is disclosed in Notes 7 and 26. During 2019 and 2018, the Group did not capitalize borrowing costs with property, plant and equipment.

***Property, plant and equipment carried at revalued amounts***

The Group's Production equipment and motor vehicles, Production plant and buildings are accounted for at their revalued amounts, representing the fair value at the date of revaluation, less any subsequently accumulated depreciation and accumulated impairment losses. Revaluation of these groups of property, plant and equipment was last performed as at 30 June 2018. The fair value of the revalued property, plant and equipment was determined using the cost approach that reflects capital expenditures/ investments required for the construction or acquisition of an asset with similar characteristics, adjusted for the actual age of the assets.

The key assumptions used in the valuation as at 30 June 2018 were the degree of deterioration (34% at revaluation date) and the replacement cost. Even a slight increase in the degree of deterioration will result in significant decrease in fair value of property, plant and equipment, and slight increase in the replacement cost will result in significant increase in fair value of the assets.

The majority of revalued property, plant and equipment items are special-purpose assets, thus, no direct substitutes are available on the market and therefore an independent appraiser applied the method of indexation of costs incurred during construction, acquisition or installation of the assets to estimate the replacement cost. Considering the unique characteristics of the revalued items, assumptions used in the assessment of fair value, and level of observable input data, the fair value was categorized into Level 3.

Details of the Group's revalued items of property, plant and equipment and information about the fair value hierarchy as at the reporting period were as follows:

| | Level 1 | Level 2 | Level 3 | Fair value as at 31 December 2019 |
|---|---|---|---|---|
| Equipment and motor vehicles | - | - | 29 327 | 29 327 |
| Production plant and buildings | - | - | 25 381 | 25 381 |

If the Group's revalued equipment and motor vehicles, production plant and buildings had been measured on a historical cost basis, their carrying amount would have been as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Equipment and motor vehicles | 18 061 | 21 148 |
| Production plant and buildings | 18 526 | 18 960 |

*(in millions of Russian Rubles, unless otherwise indicated)*

## 15. RIGHT-OF-USE ASSETS

Prior to the resolution to terminate operations in the *Railcar Fleet Lease* segment, the Group leased, among others, the following types of assets: railcars of various models and containers (with the average lease term of 3-10 years, hereinafter - "railcars and containers"), office buildings and warehouses (with the average lease term of 10-15 years, hereinafter - "leased buildings"). Below is information on changes in the carrying value of right-of-use assets:

| | Railcars and containers | Land plots, leased buildings | Other assets | Total |
|---|---|---|---|---|
| ***Cost*** | | | | |
| **As at 1 January 2019, upon adoption of IFRS 16** | **26 728** | **786** | **192** | **27 706** |
| New lease contracts or modifications of existing lease contracts | 437 | 256 | 39 | 732 |
| Disposal of right-of-use assets | (2 780) | (3) | (2) | (2 785) |
| Reclassified as held for sale | (23 189) | - | - | (23 189) |
| **Cost as at 31 December 2019** | **1 196** | **1 039** | **229** | **2 464** |

| | Railcars and containers | Land plots and leased buildings | Other assets | Total |
|---|---|---|---|---|
| ***Accumulated depreciation and impairment*** | | | | |
| **As at 1 January 2019, upon adoption of IFRS 16** | **4 368** | **-** | **-** | **4 368** |
| Depreciation of right-of-use assets | 1 282 | 84 | 83 | 1 449 |
| *including related to discontinued operations* | *960* | - | - | *960* |
| Disposal of right-of-use assets | (935) | (1) | - | (936) |
| Loss on fair value adjustments less costs to sell of assets held for sale | 174 | - | - | 174 |
| Reclassified as held for sale | (4 567) | - | - | (4 567) |
| **Accumulated depreciation and impairment as at 31 December 2019** | **322** | **83** | **83** | **488** |
| **Carrying value as at 1 January 2019, upon adoption of IFRS 16** | **22 360** | **786** | **192** | **23 338** |
| **Carrying value as at 31 December 2019** | **874** | **956** | **146** | **1 976** |

| | Year ended 31 December 2019 |
|---|---|
| ***Recognized in consolidated statement of profit or loss and other comprehensive income*** | |
| Depreciation of right-of-use assets | 488 |
| Interest expense on lease liabilities | 124 |

As at 31 December 2019, following the resolution of the Board of Directors of PJSC "RPC UWC" to terminate operations of the *Railcar Fleet Lease* segment, right-of-use assets with a carrying value of RUB 18 622 million were transferred to assets held for sale (Note 7).

Total cash outflows related to the Group's activities as a lessee under lease contracts reported in the consolidated financial statements under IFRS 16 totaled RUB 3 838 million for the year ended 31 December 2019.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 16. INTANGIBLE ASSETS

The Group is engaged in the research and development of freight rolling stock technologies. Intangible assets at the development stage include capitalized expenses for the development of casting and railway car building technologies for future use in production of the new generation railway cars in the town of Tikhvin.

Movements in the carrying amount of intangible assets were as follows:

| | Intangible assets at the develop-ment stage | Know-how and patents | Software | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 January 2018** | **2 026** | **5 626** | **483** | - | **8 135** |
| Additions | 721 | 156 | 252 | | 1 129 |
| Acquisition of companies (Note 6) | - | - | - | 507 | 507 |
| Disposals | (9) | (2) | - | - | (11) |
| Transfers | (893) | 893 | - | - | - |
| **At 31 December 2018 (restated)** | **1 845** | **6 673** | **735** | 507 | **9 760** |
| *Effect of application of IFRS 16 (Note 3)* | - | - | - | *(507)* | *(507)* |
| **At 1 January 2019** | **1 845** | **6 673** | **735** | - | **9 253** |
| Additions | 379 | 66 | 96 | - | 541 |
| Disposals | (4) | (103) | (1) | - | (108) |
| Transfers | (243) | 243 | - | - | - |
| **At 31 December 2019** | **1 977** | **6 879** | **830** | - | **9 686** |
| **Accumulated amortization and impairment** | | | | | |
| **At 1 January 2018** | - | **1 212** | **191** | - | **1 403** |
| Amortization charge | - | 437 | 74 | - | 511 |
| Impairment loss | 1 206 | 24 | - | - | 1 230 |
| **At 31 December 2018 (restated)** | **1 206** | **1 673** | **265** | - | **3 144** |
| Amortization charge | - | 466 | 145 | - | 611 |
| Disposals | - | (108) | - | - | (108) |
| Impairment loss | 247 | 168 | - | - | 415 |
| **At 31 December 2019** | **1 453** | **2 199** | **410** | - | **4 062** |
| **Net book value** | | | | | |
| **At 31 December 2018 (restated)** | **639** | **5 000** | **470** | 507 | **6 616** |
| **At 31 December 2019** | **524** | **4 680** | **420** | - | **5 624** |

Intangible assets pledged as collateral under the Group's loan agreements are disclosed in Note 26.

### *Internally generated intangible assets*

As at 31 December 2019 and 2018, the historical cost of internally generated intangible assets was RUB 2 446 million and RUB 2 495 million, respectively. The respective accumulated amortization as at 31 December 2019 and 2018 was RUB 137 million and RUB 75 million, respectively. The total amount of additions of internally generated intangible assets in 2019 and 2018 amounted to RUB 542 million and RUB 610 million with amortization charges of RUB 76 million and RUB 50 million, respectively.

*(in millions of Russian Rubles, unless otherwise indicated)*

***Patents***

In 2019 and 2018, the Group registered a number of patents in the amount of RUB 70 million and RUB 63 million, respectively, in respect of exclusive rights to industrial designs and technical specifications. Registered patents were transferred from intangible assets under development to know-how and patents in the respective reporting periods.

***Software***

In 2019 and 2018, the Group acquired a license pack for SAP ERP system. Total capitalized costs amounted to RUB 73 million and RUB 198 million, respectively. SAP licenses are included in the *Software* item of this note, together with the ERP system implemented at TVSZ JSC.

***Impairment of intangible assets***

In 2019, in the course of the annual impairment testing of intangible assets and assets under development, the Group identified indicators of impairment of some of the assets. In 2019, the Group recognized a total impairment loss of RUB 415 million (RUB 415 million of which was attributable to the Group's internal developments) in the consolidated statement of profit or loss and other comprehensive income.

## 17. GOODWILL

The carrying value of goodwill was allocated to the following cash-generating units ("CGUs"):

| | Carrying value | |
|---|---|---|
| | **31 December 2019** | **31 December 2018 (restated)** |
| **CGU – "Production"** | | |
| TM-energo LLC | 5 436 | 5 436 |
| JSC TAP "Titran-Express" | 2 498 | 2 498 |
| SZIPK JSC | 1 805 | 1 805 |
| TVSZ JSC | 108 | 108 |
| **Total goodwill** | **9 847** | **9 847** |

In 2018, the Group acquired SZIPK JSC. The acquisition was recognized at estimated values of assets and liabilities. The preliminary estimated goodwill of RUB 736 million arising on the acquisition of SZIPK JSC was allocated to the *Production* CGU. In 2019, the Group completed the measurement of the acquisition cost of SZIPK JSC (Note 6); goodwill recognized on acquisition of the subsidiary was RUB 1 805 million.

As at 31 December 2019, CGU *Production* represented the lowest level within the Group at which the goodwill is monitored for internal management and management reporting purposes. Neither before nor after the aggregation of the CGU Production had this CGU exceeded the *Production* reporting segment (Note 5).

**Information about annual impairment test**

At 31 December 2019, the Group performed an impairment test of goodwill. For this purpose, the recoverable amount of the CGU *Production* was determined based on value in use calculations. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and corresponding discount rate, which reflects time value of money and risks associated with the Group's operations.

***(in millions of Russian Rubles, unless otherwise indicated)***

The key assumptions management used in their value in use calculation as at 31 December 2019 were as follows:

- Forecasted cash flows are based on the Group's budget for 2020 and business plans for 2020-2029 approved by the management, which take into account cash flow fluctuations arising due to the cyclic nature of the market with a maximum decline projected for 2024. The production plan takes into account the above mentioned long-term market demand trends, including related to a decline in freight railway transportation, and assumes to focus production facilities on railcar models that are in stable customer demand (for example, special-purpose rolling stock and open wagons that are traditionally in strong demand in the market);
- In 2020, the Group's management also expects to achieve gross margin targets at the level of 2019 and assumes that in the medium term the production of advanced models, including exploration of more efficient production methods, and stabilization of production facilities will allow to maintain gross margin targets;
- The Group calculated the average selling prices for railcars for 2020 on the basis of the current price lists and contracts for the sale of finished products actually concluded by the Group. The average cost of railcars production until the end of 2020 is based on the company's forecasts of raw materials and rates under the current supply contracts;
- Cash flows for 2020 were determined based on the approved budget for a calendar year. Cash flows for 2021-2029 were determined by extrapolation using a growth rate equal to 1% per quarter, which is estimated based on historical experience and expectations of market development, expected production volumes and railcar selling prices in 2021 (4% annual growth rate);
- Cash flows after 2029 were determined by averaging the terminal value for the 2020-2029 horizon to eliminate the cyclic market changes not depending directly on the forecast period using a steady growth rate equal to 4.27% per year, which reflects the forecasted long-term growth rates of the Russian industry;
- The discount rate for the CGU *Production* was calculated based on the weighted-average cost of capital for the Group before taxation; its nominal value is 12.87%.

The analysis indicated that the estimated recoverable value of CGU *Production* exceeded its carrying amount by RUB 295 million.

### *Sensitivity analysis*

During the testing it was identified that the most significant impact on the recoverable amount of the CGU Production was resulted by changes in sales volumes, expected gross margins and discounting rates.

The table below presents sales volumes and expected gross margins for the following ten years that were used in determining the recoverable amount of the CGU Production:

| **Indicators used in determining the recoverable amount** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales volumes, items | 19 968 | 16 905 | 15 196 | 15 199 | 15 199 | 15 199 | 15 678 | 17 156 | 18 242 | 20 000 |
| Gross margin, % | 26.1% | 25.1% | 25.9% | 26.3% | 25.8% | 26.5% | 26.8% | 27.6% | 28.3% | 28.5% |

Below is a sensitivity analysis for each of the assumption that have the most significant impact on the resulting estimate (with all the other assumptions constant):

- If the expected gross margin decreased by 50 basis points, the recoverable amount of the CGU Production would have been lower than its carrying amount by RUB 3 470 million;
- If the discounting rate increased by 50 basis points, the recoverable amount of the CGU Production would have been lower than its carrying amount by RUB 2 910 million;
- If the expected sales volumes decreased by 1.5 %, the recoverable amount of the CGU Production would have been lower than its carrying amount by RUB 1 972 million.

The sensitivity analysis presented above may be different from the actual change in the recoverable amount of the CGU Production as it is unlikely that the change in assumptions would occur in isolation of one another (some of the assumptions may be correlated).

***(in millions of Russian Rubles, unless otherwise indicated)***

## 18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's significant associates and joint ventures include the following:

| Name of subsidiary | Type of investment | Place of incorporation and operation | Ownership and voting interest of the Group 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| "MRC 1520" LLC | Joint venture | Moscow, Russia | 50% | 50% |
| "Timken UWC" LLC | Associate | Tikhvin, Russia | 49% | 49% |
| "JV "Wabtec-UWC" LLC | Associate | Tikhvin, Russia | 49% | 49% |

### MRC 1520 LLC

In 2012, the Company entered into a joint venture agreement with Mitsui Corporation (Mitsui & Co. Ltd) to establish "MRC 1520" LLC and acquired a 50% share in IMRCR Limited, the founder of "MRC 1520" LLC. The joint venture's primary business is operating lease and sale of railcars to transportation and manufacturing companies within Russia.

The Group's share in profit of the joint venture for 2019 and 2018 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 33 million and RUB 97 million, respectively. Summarized financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarized financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash and cash equivalents | 276 | 182 |
| Trade receivables | 7 | 4 |
| Property, plant and equipment | 710 | 742 |
| Deferred tax assets | - | - |
| Other current liabilities | (28) | (27) |
| Non-current liabilities | (12) | (14) |
| **Net assets of the joint venture** | **953** | **887** |
| Group's ownership interest in the joint venture | 50% | 50% |
| **Carrying amount of the Group's interest in the joint venture** | **477** | **444** |
| Less a mark-up on the sale of railcars to the joint venture | (19) | (19) |
| **The Group's interest in the joint venture, including sales to the joint venture** | **458** | **425** |

| | 2019 | 2018 |
|---|---|---|
| Revenue | 158 | 133 |
| Profit and total comprehensive income for the year | 67 | 194 |
| Group's share in profits of the joint venture | 33 | 97 |

The above profit for the year includes the following:

| | 2019 | 2018 |
|---|---|---|
| Gross profit from the sale of railcars | - | 120 |
| Depreciation and amortization | (33) | (20) |
| Interest income | 4 | 7 |
| Income tax expense | (16) | (49) |
| Foreign exchange gain/(loss) | (23) | 24 |

***(in millions of Russian Rubles, unless otherwise indicated)***

**"Timken UWC" LLC**

In 2015, the Group signed an agreement on establishing an associate "Timken UWC" LLC with Timken Lux Holdings II S.A.R.L. and establishing TUBC Limited, the founder of "Timken UWC" LLC, with a 49% share of the Group in the associate. The principal activity of the associate is the production of bearings for freight railcars. "Timken UWC" LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of "Timken UWC" LLC.

The Group's share in profit of the associate for 2019 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 45 million. The Group's share in the loss of the associate for 2018 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 99 million.

Summarized financial information in respect of the Group's associate and its reconciliation to the carrying amount of the interest in the associate are set out below. The summarized financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash and cash equivalents | 383 | 55 |
| Accounts receivable | 88 | 84 |
| Inventories | 229 | 396 |
| Property, plant and equipment | 886 | 1 109 |
| Deferred tax assets | 172 | 218 |
| Trade payables | (154) | (350) |
| Other current liabilities | (34) | (34) |
| **Net assets of the associate** | **1 570** | **1 478** |
| Group's ownership interest in the associate | 49% | 49% |
| **Carrying amount of the Group's interest in the associate** | **769** | **724** |

| | 2019 | 2018 |
|---|---|---|
| Revenue | 1 507 | 944 |
| Profit/(loss) and total comprehensive loss for the year | 92 | (201) |
| Group's share in the profit/(loss) of the associate | 45 | (99) |

The above profit/(loss) for the year includes the following:

| | 2019 | 2018 |
|---|---|---|
| Cost of sales | (1 334) | (1 020) |
| Selling expenses | (80) | (116) |
| Foreign exchange gain/(loss) | 19 | (85) |
| Other income/(expenses) | 37 | (5) |
| Income tax (expense)/benefit | (57) | 81 |

**"JV "Wabtec-UWC" LLC**

In 2015, the Group signed an agreement on establishing an associate "JV "Wabtec UWC" LLC with Wabtec Corporation and establishing WABTEC-UWC LTD, the founder of "JV "Wabtec UWC" LLC. The Group owns a 49% share in WABTEC-UWC LTD. The principal activity of the associate is the development and production of innovative components for freight rolling stock, including the heavy one. "JV "Wabtec-UWC" LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of "JV "Wabtec-UWC" LLC. At 31 December 2019 and 2018, the carrying value of the Group's interest in the associate amounted to RUB 3.8 million and RUB 5.5 million respectively.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 19. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Real estate purchased for lease to the Group's employees | 470 | 451 |
| Inventories | 136 | 236 |
| Advances paid for acquisition of property | - | 687 |
| **Total non-current assets** | **606** | **1 374** |

## 20. INVENTORIES

Inventories comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Raw materials and components for railcar production | 9 352 | 10 460 |
| Finished goods (railcars) | 1 412 | 1 042 |
| Other inventories | 565 | 310 |
| **Total inventories** | **11 329** | **11 812** |

## 21. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade receivables from the sale of railcars | 1 856 | 2 318 |
| Trade receivables from the sale of castings, components and other inventories | 474 | 551 |
| Trade receivables from repair of railcars | 64 | 350 |
| Other receivables | 316 | 302 |
| Trade receivables from leaseback transaction (Note 30) | - | 4 996 |
| Allowance for expected credit losses | (37) | (27) |
| **Total trade and other receivables** | **2 673** | **8 490** |

Management determines the allowance for expected credit losses based on the assessment of customers' credit quality, changes in industry trends, subsequent receipts and historical experience. Ageing of trade receivables was as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Past due 31 - 90 days | 299 | 327 |
| Past due 91 - 180 days | 54 | 133 |
| Past due 181 - 365 days | 77 | 14 |
| Past due over 365 days | 23 | 18 |
| **Total** | **453** | **492** |

Movements in the allowance for expected credit losses for trade and other receivables during the years ended 31 December 2019 and 2018 were as follows:

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 27 | 46 |
| Reversal of the allowance for expected credit losses | (2) | (38) |
| Charge of the allowance for expected credit losses | 12 | 19 |
| **Balance at the end of the year** | **37** | **27** |

***(in millions of Russian Rubles, unless otherwise indicated)***

## 22. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS

Prepayments to suppliers and other assets comprised the following:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Prepayments to suppliers | 3 766 | 4 794 |
| Deferred expenses | 158 | 190 |
| Prepaid taxes and social contributions | 137 | 58 |
| Prepayment to customs | 108 | 35 |
| Allowances for expected credit losses | (69) | (108) |
| **Total prepayments to suppliers and other assets** | **4 100** | **4 969** |

## 23. LOANS RECEIVABLE

Loans receivable including interest accrued comprised the following:

| | **Currency** | **Interest rate (as at 31 December 2019)** | **31 December 2019** | **31 December 2018** |
|---|---|---|---|---|
| **Loans receivable at amortized cost** | | | | |
| ***Secured*** | | | | |
| Plainwhite Consultants Limited | RUB | 10.00% | 5 643 | - |
| Re Test Cyprus LTD | USD | 6.40% | 611 | 650 |
| Re Test LTD | USD | 6.40% | 6 | 5 |
| SZIZhK CJSC | RUB | 11.00% | - | 1 954 |
| Business Engineering CJSC | RUB | 11.00% | - | 325 |
| ***Unsecured*** | | | | |
| NitroChemProm LLC | RUB | 10.00% | - | 6 421 |
| ICT-Capital LLC | RUB | 11.50-12.50% | - | 1 618 |
| Other | RUB | 1-12.50% | - | 343 |
| **Gross loans** | | | **6 260** | **11 316** |
| Allowance for expected credit losses | | | (199) | (1 959) |
| **Total loans granted** | | | **6 061** | **9 357** |
| Short-term loans | | | 114 | 92 |
| Long-term loans | | | 5 947 | 9 265 |
| **Total loans receivable** | | | **6 061** | **9 357** |

*(in millions of Russian Rubles, unless otherwise indicated)*

The table below shows movements in ECL on the following financial assets during:

| | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Total<br>ECL |
|---|---|---|---|
| **Allowance for ECL as at 1 January 2018 upon adoption of IFRS 9** | **200** | - | **200** |
| Reversal of allowance due to disposal of assets | (22) | - | (22) |
| Decrease in allowance due to decrease in credit risk | (69) | - | (69) |
| Increase in allowance due significant increase in credit risk | - | 1 850 | 1 850 |
| Reclassification | (61) | 61 | - |
| **Allowance for expected credit losses at 31 December 2018** | **48** | **1 911** | **1 959** |
| Reversal of allowance due to disposal of assets | (48) | (1 781) | (1 829) |
| Increase in allowance due significant increase in credit risk | - | 69 | 69 |
| **ECL allowance at 31 December 2019** | **-** | **199** | **199** |

In June 2019, the Group entered into a number of agreements to assign outstanding amounts under a number of loans receivable. These agreements stipulated immediate repayment of the outstanding debt. Therefore, during the year ended 31 December 2019, loans of RUB 4 513 million were repaid, including interest accrued and not paid at the assignment date.

In the first half of 2019, the Group sold the promissory note acquired from NitroChemProm LLC, with the nominal value of RUB 5 500 million and interest accrued of RUB 1 385 million at the transaction date, to Plainwhite Consultants Limited for RUB 6 885 million RUB. Under redemption terms, the first tranche of RUB 1 487 million shall be paid at the contract date, and the remaining part of RUB 5 398 million will be paid over the period of 3 years by installments at 10% per annum which is equivalent to the principal terms of the promissory note previously held by the Group. The debt of Plainwhite Consultants Limited to the Group is secured by a part of its interest in the Group's share capital equaling 17 399 503 ordinary shares.

## 24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank deposits in RUB | 10 713 | 9 796 |
| Current accounts in RUB | 133 | 886 |
| Bank deposits in foreign currency | 79 | 24 |
| Current accounts in USD | 22 | 154 |
| Current accounts in EUR | 11 | 11 |
| Cash in other currencies | 2 | - |
| **Total cash and cash equivalents** | **10 960** | **10 871** |

As at 31 December 2019 and 2018, the Group placed cash in overnight deposits to gain interest income. During 2019, the interest rate on ruble deposits ranges from 4.3% to 5.8% and for the deposit in USD, the interest rate is set at 2.0%.

*(in millions of Russian Rubles, unless otherwise indicated)*

**Restricted cash as at 31 December 2019**

During 2018, a number of bank guarantees were issued to one of the Group's entities as a principal with respect to its customers in order to ensure that the Group participates in tenders, receives advance payments for further sales of railcars and fulfills its obligations under contracts. As at 31 December 2019 and 2018, the total amount pledged as collateral for such guarantees was RUB 229 million and RUB 2 263 million, respectively. As at 31 December 2019, the long-term portion of such cash totaled RUB 176 million and was included in the consolidated statement of financial position as non-current assets.

**Restricted cash as at 31 December 2018**

Under the loan and security documentation concluded between one of the Group's entities and Gazprombank JSC and Gazprombank Leasing JSC, a pledge agreement was signed in respect of the bank security account opened with Gazprombank JSC. In accordance with the terms of the agreement, the security account shall accumulate proceeds from railcar lease services under a number of lease contracts concluded by the above entity with its counterparties. As at 31 December 2018, the funds accumulated on the collateral account totaled RUB 239 million. The Group did not classify these assets as restricted cash, since as at 31 December 2018, the creditor had no right to restrict the use of funds in the collateral account: the restriction arises only when the Group breaches certain financial covenants established by the loan and lease agreements that had not been breached at the reporting date.

## 25. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at 31 December 2019 and 2018, the Group's issued and registered share capital amounted to RUB 116 million, divided into 116 million ordinary non-certificated registered shares with a par value of RUB 1 each. As at the reporting date the share capital was fully paid.

## 26. LOANS AND BORROWINGS

Loans and borrowings received comprised the following:

| At amortised cost | Maturity Date | Interest rate (at 31 December 2019) | | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|---|
| PJSC Otkritie FC Bank | 2020-2024 | Fixed | 9.55% | 31 778 | 48 381 |
| Gazprombank (JSC) | 2028 | Fixed | 10.50% | 6 000 | 6 000 |
| PJSC Trust | 2023 | Floating | Key rate of the CBR +2.5% | 3 600 | 3 871 |
| PJSC Otkritie FC Bank | 2022-2024 | Floating | 7.75% | 1 736 | 2 503 |
| UniCredit Bank | 2024 | Floating | MosPrime 3M + 1.5% | 597 | 718 |
| ROSEXIMBANK JSC | 2021 | Fixed | 9.00% | 304 | 552 |
| Industry Development Fund | 2021 | Fixed | 5.00% | 62 | 62 |
| **Total loans and borrowings** | | | | **44 077** | **62 087** |
| Less: short-term portion | | | | 8 227 | 18 087 |
| | | | | **35 850** | **44 000** |
| Liabilities directly associated with assets classified as held for sale (Note 7) | | | | (6 000) | - |
| **Non-current loans and borrowings** | | | | **29 850** | **44 000** |

*(in millions of Russian Rubles, unless otherwise indicated)*

**Security on loans and borrowings**

Under the terms of the loan agreements as at 31 December 2019 and 2018, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 35 833 million and RUB 38 156 million, respectively (collateral under the loan agreement and the related leaseback agreement with Gazprombank (JSC) and Gazprombank Leasing JSC is disclosed in Note 7);
- Intangible assets with a carrying value of RUB 34 million and RUB 47 million, respectively;
- Rights to claim proceeds from export revenue in the amount of RUB 482 million and RUB 734 million, respectively.

Moreover, as at 31 December 2019 shares in the following subsidiaries were pledged as collateral: TM-energo LLC (100%), JSC "TikhvinSpetsMash" (100%), JSC "TikhvinChemMash" (100%), AFCT Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (100%) and TVSZ JSC (100%).

As at 31 December 2018, the Group provided the pledge of share in the following subsidiaries: TM-energo LLC (100%), JSC "TikhvinSpetsMash" (100%), JSC "TikhvinChemMash" (100%), AFCT Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (100%) and TVSZ JSC (100%).

**Repayment schedule**

The repayment schedule of loans and borrowings (excluding future interest) for five years ending 31 December 2024 and thereafter is as follows (excluding the loan from Gazprombank (JSC) of RUB 6 000 million included in the disposal group of assets held for sale and relevant liabilities):

| Year ended 31 December | Amount to maturity |
|---|---|
| 2020 | 8 227 |
| 2021 | 14 531 |
| 2022 | 3 061 |
| 2023 | 12 139 |
| 2024 | 119 |
| **Total loans and borrowings** | **38 077** |

***(in millions of Russian Rubles, unless otherwise indicated)***

**Reconciliation of financial liabilities**

Changes in financial liabilities, including cash and non-cash movements, are presented below. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

| | **1 January 2019** | **Cash flows from financial activities[1]** | **Other non-monetary changes** | **Net interest payments** | **31 December 2019** |
|---|---|---|---|---|---|
| Bank loans from related parties | 50 884 | (17 417) | 3 737 | (90) | 37 114 |
| Liabilities directly associated with assets classified as held for sale (Note 7) | - | - | 41 861 | - | 41 861 |
| Bonds | 30 433 | (3 750) | - | (524) | 26 159 |
| Bank loans | 11 141 | (512) | (9 736) | 8 | 901 |
| Lease liabilities | 21 470 | 2 616 | (22 592) | 33 | 1 527 |
| Other borrowings | 62 | - | - | - | 62 |
| Financial liabilities under leaseback transactions | 6 499 | 17 771 | (24 270) | - | - |
| | **120 489** | **(1 292)** | **(11 000)** | **(573)** | **107 624** |

| | **1 January 2018** | **Cash flows from financial activities[1]** | **Other non-monetary changes** | **Net interest payments** | **31 December 2018** |
|---|---|---|---|---|---|
| Bank loans from related parties | - | (6 604) | 57 581 | (93) | 50 884 |
| Bonds | 30 470 | (6) | - | (31) | 30 433 |
| Bank loans | 82 115 | (13 402) | (57 508) | (64) | 11 141 |
| Finance lease liabilities | 195 | 17 060 | 4 215 | - | 21 470 |
| Other borrowings | 62 | - | - | - | 62 |
| Financial liabilities under leaseback transactions | - | 6 499 | - | - | 6 499 |
| | **112 842** | **3 547** | **4 288** | **(188)** | **120 489** |

[1] Cash flows from bank loans and bonds comprise net amount of inflows and outflows related to borrowed funds specified in the statement of cash flows. Cash flows from lease liabilities represent the amount of the principal under lease agreements.

**Covenants**

The credit agreements set forth certain covenants for the Group, including maintaining certain financial ratios and other non-financial conditions. Non-compliance with these covenants may result in negative consequences for the Group, including default.

***Compliance with covenants during the year ended 31 December 2019***

As at 31 December 2019 and during 2019, several of the Group's subsidiaries breached a number of default financial and non-financial covenants stipulated by loan agreements with Bank FC Otkritie PJSC, ROSEXIMBANK JSC, and Gazprombank (JSC) (including the related lease agreement with Gazprombank Leasing JSC). The non-current portion of liabilities under these agreements amounted to RUB 16 779 million excluding the amount of the loan issued by Gazprombank (JSC) included in the consolidated statement of financial position in disposal group of assets held for sale and liabilities directly associated with them, as it is expected to be repaid/restructured within 12 months after the reporting date.

In 2020, the Group received a letter from lending banks informing the Group that neither Otkritie FC Bank PJSC, nor Gazprombank (JSC) were going to impose sanctions or demand early repayment of the loans with covenant breaches. The breaches were partially technically remedied by the Group after the reporting date. The Group's management estimated the probability that banks will demand an early repayment of loans under agreements with breached financial and non-financial covenants at the reporting date was low as for all loans and lease liabilities with breached covenants the Group received after the reporting date notifications from the banks with a waiver of their right to demand early repayment and collateral (for lease liabilities collateralized by the leased assets). Consequently, as at 31 December 2019 loans were presented in the consolidated financial statements for the year ended 31 December 2019 according to the initial maturities stipulated in the loan agreements.

***Compliance with covenants during the year ended 31 December 2018***

As at 31 December 2018, several of the Group's subsidiaries breached a number of default financial and non-financial covenants stipulated by loan agreements with Bank FC Otkritie PJSC, loan agreement with Gazprombank (JSC) and the related lease agreement with Gazprombank Leasing JSC. As at the reporting date, the non-current portion of liabilities under these agreements amounted to RUB 22 845 million.

In May 2019, after the reporting date, following the breach of certain conditions of loan agreements with Bank FC Otkritie PJSC, the Group received documents confirming that creditors will not demand an early repayment of the liabilities. The breaches of agreements with Gazprombank (JSC) and Gazprombank Leasing JSC were technically remedied in February 2019. Also, at the date of approval of the consolidated financial statements for the year ended 31 December 2018, the Group received a letter from the bank confirming that it would not demand an early repayment of the loan or termination of the respective finance lease.

The Group's management estimated the probability that banks will demand early repayment of loans under agreements with breached financial and non-financial covenants as at 31 December 2018 was low and, therefore, as at 31 December 2018, such loans were presented in the consolidated financial statements for the year ended 31 December 2018 according to the initial payment terms stipulated in the loan agreements.

**Available credit facilities**

As at 31 December 2019 the Group had an opened credit facility with Otkritie FC Bank PJSC with the limit set at RUB 8 500 million. As at 31 December 2018, the Group had no credit facilities.

***(in millions of Russian Rubles, unless otherwise indicated)***

## 27. BONDS

In 2014 and 2013 the Group issued and placed 30 000 000 bonds (Series BO 01 and Series 01) at par value of RUB 1 thousand each on MICEX CJSC (currently, Moscow Exchange PJSC). As at 31 December 2019 and 2018, subsidiaries of the Group held bonds for RUB 206 million and RUB 207 million, respectively, for the purpose of their future resale on the market.

The annual coupon rate of these bonds was set at:

- For bonds of Series 01 - Russian CPI + 3% with the interest being paid semi-annually. During the year ended 31 December 2019, the following coupon rates were used:
  - 6.34% p.a. from 1 January 2019 to 28 May 2019;
  - 9.90% p.a. from 29 May 2019 to 26 November 2019;
  - 3.62% p.a. from 27 November 2019 to 26 May 2020;
- For Series BO-01 bonds - until 9 September 2019, the CBR's REPO rate on the 7th day prior to coupon payment + 3.5% with interest being paid semi-annually, starting from 10 September 2019 the fixed annual rate is set at 9.55% p.a. During the year ended 31 December 2019, the following rates were used:
  - 12% p.a. from 1 January 2019 to 11 March 2019;
  - 12.25% p.a. from 12 March 2019 to 9 September 2019;
  - 9.55% p.a. from 10 September 2019 to 3 September 2024 (repayment date of the series).

Series 01 bonds are secured by guarantees and offers provided by several entities of the Group. Series BO-01 bonds are secured by offers issued by several entities of the Group.

The carrying value of bonds issued and placed by the Group was as follows:

| | Maturity Date | Weighted average interest rate for 2019 | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| Series 01 | 24 November 2021 | 7.85% | 14 793 | 14 793 |
| Series BO-P01 | 3 September 2024 | 11.59% | 11 250 | 15 000 |
| **Total carrying value of bonds** | | | **26 043** | **29 793** |

Interest accrued as at 31 December 2019 and 2018 in the amount of RUB 116 million and RUB 640 million, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

On 14 August 2019, the general meeting of the holders of commercial bonds placed by one of the Group's subsidiaries, "UWC Finance" LLC, made the following decisions: to extend the maturity date of Series BO-01 commercial bonds to 3 September 2024 and to revise maturities for the par value of Series BO-01 bonds so that 25% of the par value is redeemed on 30 September 2019, and 75% - on 3 September 2024. Moreover, for the remaining coupon periods, from 11 to 30, the new length of the reporting period is set as 91 days, and the new coupon rate is set as 9.55% p.a. On 22 August 2019, the changes to the decision on the issue of Series BO-01 commercial bonds were submitted for approval to Moscow Exchange PJSC. The changes were registered on 9 September 2019.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 28. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade payables | 4 883 | 4 662 |
| Payables for acquired property, plant and equipment and intangible assets | 99 | 231 |
| **Total trade and other payables** | **4 982** | **4 893** |

## 29. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Prepayments from customers | 18 523 | 19 223 |
| *incl. advances received for sale of goods (railcars)* | *18 424* | *19 018* |
| Taxes payable (incl. VAT) | 4 983 | 4 095 |
| Provisions and accrued expenses | 824 | 964 |
| Other short-term payables to employees | 211 | 301 |
| **Total advances received and other current liabilities** | **24 541** | **24 583** |

In 2019 and 2018, the Group entered in to a number of railcar supply agreements with deliveries due in 2020-2022. As at 31 December 2019 and 31 December 2018, a portion of advances for supplies due after 31 December 2020 was recognized separately. These advances amounted to RUB 9 660 million and RUB 78 million as at 31 December 2019 and 2018 and were included in the consolidated statement of financial position in non-current liabilities as advances received.

## 30. FINANCIAL LIABILITIES UNDER LEASEBACK TRANSACTIONS

In 2018, several subsidiaries of the Group entered into a trilateral purchase and sale agreement for railcars with leaseback, which stipulates that, in the period from 2019 to 2020, the Group was to deliver 10 000 railcars to PJSC GTLK with a total value of RUB 32 000 million (net of VAT) in 21 tranches, which in turn would transfer them to one of the Group's entities under a long-term leaseback. The lease term will be 15 years from the delivery date of each tranche, future lease payments will amount to RUB 71 105 million (net of VAT). The effective interest rate is calculated excluding the effect of cash flows from VAT and varies from 12.4% to 12.8% per annum.
The agreement provides for advances to the Group for subsequent production of railcars: in August 2018, the Group received an advance of RUB 7 552 million (incl. 18% VAT of RUB 1 152 million), which is 20% of the prepayment under each tranche. Since the lease liability arose for the Group only after the first tranche of railcars was delivered and leased back in 2019, as at 31 December 2018, the Group recognized the advance payment in accordance with IFRS 9 as a financial liability carried at amortized cost using the effective interest rates that determine future lease payments under the lease contract. As at 31 December 2018, the short- and long-term portions of this financial liability were RUB 1 509 million and RUB 4 862 million.

*(in millions of Russian Rubles, unless otherwise indicated)*

Therefore, in 2019 the Group analyzed the transaction (transfer of 5 500 railcars during the year ended 31 December 2019) to determine whether the transfer of railcars within this transaction qualifies as a sale under IFRS 15 and whether it is covered by IFRS 16: the above transaction is not a sale and, therefore, the Group continued to recognize railcars transferred under the transaction and recognized an increase in financial liability partially recognized in 2018 under IFRS 9. In 2019, the Group entered into several additional agreements to adjust the original terms of tranches for railcar supply, to revise schedules of future lease payments, and to decrease the lease rate following the decrease in the CBR key rate which resulted in the modification of the existing financial liability. This modification was assessed by the Group as having no significance and was treated as the extension to the previous liability. The effect of the modification of RUB 53 million was recognized in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2019, following the Decision of PJSC RPC UWC's Board of Directors to discontinue operations in the *Railcar Fleet Lease* segment, a portion of financial liability adjusted for the portion of cash received for railcars not produced by the reporting date under the leaseback transaction with PJSC GTLK of RUB 17 112 million was reclassified to liabilities directly associated with assets held for sale (Note 7). The plan for discontinuing *Railcar Fleet Lease* segment included additional agreements to adjust the Group's commitment to purchase railcars in leaseback: under the new transaction terms the Group shall deliver 4 500 railcars to PJSC GTLK under and sale agreement and cash paid to the Group under leaseback agreement will be used against future deliveries.

Movement in the financial liability under leaseback transactions is shown below:

| | **2019** | **2018** |
|---|---|---|
| **Balance at 1 January** | **6 499** | - |
| Effect of the effective rate for amortized cost calculation | **-** | 364 |
| Interest expense on financial liability under leaseback agreement | 1 677 | - |
| *including related to discontinued operations* | *1 318* | - |
| Effect of modification of the financial liability under leaseback agreement | (48) | - |
| including related to discontinued operations | *(48)* | - |
| Cash inflow under the leaseback agreement | 18 029 | 6 400 |
| Other cash inflows | - | 135 |
| Lease payments for the year | (1 577) | (400) |
| Liabilities directly associated with assets classified as held for sale (Note 7) | (17 257) | - |
| Reclassified to prepayments from customers for future deliveries | (7 323) | - |
| **Balance at 31 December** | **-** | **6 499** |

*(in millions of Russian Rubles, unless otherwise indicated)*

## 31. LEASE LIABILITIES

As at 31 December 2019, lease liabilities after the adoption of IFRS 16 comprised the following:

| | 31 December 2019 |
|---|---|
| **Present value of future minimum lease payments** | 1 527 |
| Less current portion of lease liabilities | (525) |
| **Non-current portion of lease liabilities** | **1 002** |

The table below presents the changes in the lease liabilities:

| | |
|---|---|
| **Balance as at 1 January 2019 upon adoption of IFRS 16** | **18 730** |
| including: | |
| *Lease liability* | *22 945* |
| *Trade receivables from leaseback transaction* | *(4 215)* |
| Interest expense on lease liabilities | 2 102 |
| *including related to discontinued operations* | *1 978* |
| Lease payments for the year | (3 838) |
| Payment of receivables from leaseback transaction | 4 341 |
| Entering into new lease contracts or modifications of existing lease contracts | 732 |
| Disposal of a portion of lease agreement | (1 830) |
| Reclassified to liabilities directly associated with assets classified as held for sale (Note 7) | (18 604) |
| Effect of changes in foreign exchange rates under currency lease contracts | (106) |
| **Balance at 31 December 2019** | **1 527** |

As at 31 December 2019, according to the resolution of the Board of Directors of PJSC "RPC UWC" to terminate operations of the *Railcar Fleet Lease* segment (Note 7), lease liabilities amounting to RUB 18 604 million were reclassified as liabilities directly associated with assets held for sale (Note 7).

Lease contracts provide for a fixed payment, and the Group and the lessors did not enter into agreements stipulating contingent lease payments.

The Group's lease contracts contain railway business-specific covenants, such as the Group's responsibility for regular maintenance, repair and insurance of the leased assets. Some lease contracts also provide for financial and non-financial covenants. Information on the fulfillment of such covenants in the years ended 31 December 2019 and 2018 and as at 31 December 2019 and 31 December 2018 is disclosed in Note 26.

*(in millions of Russian Rubles, unless otherwise indicated)*

## 32. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group, in the ordinary course of business, enters into various transactions with related parties, such as sale and purchase of railcars spare parts or financing and investing transactions.

Related parties with which the Group entered into significant transactions for the year ended 31 December 2019 and 31 December 2018 or had significant balances outstanding as at 31 December 2019 and 31 December 2018 are associates and joint ventures, Otkritie FC Bank PJSC, as well as other related parties.

As at 31 December 2019 and 2018, the Group had the following balances with its related parties:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Trade and other receivables** | | |
| Associates and joint ventures | 10 | 9 |
| **Cash and cash equivalents** | | |
| Otkritie FC Bank PJSC | 10 808 | 8 801 |
| Other related parties | 5 | - |
| **Loans receivable and deposits** | | |
| Entities with significant influence over PJSC "RPC UWC" | 5 642 | - |
| **Prepayments to suppliers and other assets** | | |
| Otkritie FC Bank PJSC | - | 31 |
| Associates and joint ventures | - | 18 |
| **TOTAL ASSETS** | **16 465** | **8 859** |
| **Loans and borrowings** | | |
| Otkritie FC Bank PJSC | 33 513 | 50 884 |
| PJSC Trust | 3 600 | - |
| **Bonds** | | |
| Otkritie FC Bank PJSC | 20 241 | 23 882 |
| **Trade and other payables** | | |
| Otkritie FC Bank PJSC | 28 | 2 |
| Associates and joint ventures | - | 1 |
| Entities with significant influence over PJSC "RPC UWC" | 2 | - |
| **Advances received** | | |
| Associates and joint ventures | 30 | 19 |
| **TOTAL LIABILITIES** | **57 414** | **74 788** |

***(in millions of Russian Rubles, unless otherwise indicated)***

For the years ended 31 December 2019 and 2018, the Group's transactions with its related parties were as follows:

| | 2019 | 2018 |
|---|---|---|
| **Continuing operations** | | |
| **Sales of railcars and inventories** | | |
| Associates and joint ventures | - | 752 |
| Group's entities with significant influence over PJSC "RPC UWC" | - | 57 |
| **Income from consulting services** | | |
| Associates and joint ventures | 12 | 12 |
| **Other operating lease income** | | |
| Associates and joint ventures | 15 | 25 |
| Group's entities with significant influence over PJSC "RPC UWC" | - | 2 |
| **Other income** | | |
| Group's entities with significant influence over PJSC "RPC UWC" | - | 21 |
| Associates and joint ventures | 4 | 6 |
| **Purchases of raw materials used in production** | | |
| Group's entities with significant influence over RPC UWC | (10) | (62) |
| Associates and joint ventures | (1 430) | (1 074) |
| **Cost of services received (technical maintenance, lease, etc.)** | | |
| Group's entities with significant influence over PJSC "RPC UWC" | - | (396) |
| **Finance income** | | |
| Group's entities with significant influence over RPC UWC | 245 | 526 |
| Otkritie FC Bank PJSC | 530 | 442 |
| **Finance costs** | | |
| Otkritie FC Bank PJSC | (5 935) | (8 468) |
| Other related parties | (144) | (985) |
| **Other expenses** | | |
| Group's entities with significant influence over RPC UWC | - | (6) |
| Otkritie FC Bank PJSC | (18) | - |
| **Purchase of property, plant and equipment, intangible assets and investment property (including advances for subsequent purchase)** | | |
| Entities with significant influence over RPC UWC | - | (1 859) |
| **Acquisition of a subsidiary (Note 6)** | | |
| Entities with significant influence over RPC UWC | - | (1 200) |

### Transactions and settlements with state-owned entities

Also, as at 31 December 2019 the Group was controlled by the CBR (Note 1), respectively, as at the reporting date the CBR indirectly controlled the Group through its subsidiaries. Therefore, significant balances and settlements with state-controlled entities are regarded as related party transactions. Starting the date the CBR obtained control over the Group (23 August 2019) and as at 31 December 2019, the Group entered into transactions with such companies as PJSC GTLK, Gazprombank (JSC), and Gazprombank Leasing JSC. Such transactions mostly occurred within the "Railcar Fleet Lease"; the decision to discontinue the segment was adopted in December 2019. Consequently, balances with state-owned and state-controlled entities are described in Note 7.

As at 31 December 2019, trade and other receivables from such entities amount to RUB 1 177 million and advances received amount to RUB 27 350 million. Revenue from these entities amounted to RUB 17 308 million, general and administrative expenses totaled RUB 281 million.

### Remuneration to key management personnel

Compensation to key management personnel and to the Board of Directors is made up of a contractual salary and a performance bonus depending on operating results. The total amount of the remuneration to the key management personnel and to the Board of Directors for the year ended 31 December 2019 and 2018 amounted to RUB 481 и 1 233 million (including social contributions).

*(in millions of Russian Rubles, unless otherwise indicated)*

The total amount of the remuneration paid to the key management personnel of the Group for the years ended 31 December 2019 and 2018 amounted to RUB 574 и 1 034 million (including social contributions).

No performance-based bonuses were paid to the Group's Board of Directors in 2019 and 2018.

## 33. COMMITMENTS AND CONTINGENCIES

### Guarantees issued

As at 31 December 2019, there were no guarantees issued to third parties.

As at 31 December 2018, guarantees issued with respect to lease payments comprised the following:

| Name of debtor | Name of creditor | Start of validity period | End of validity period | Currency of agreement | Contractual amount |
|---|---|---|---|---|---|
| Vostok 1520 LLC | PJSC GTLK | 31 March 2017 | 30 September 2034 | RUB | 555 |
| Vostok 1520 LLC | PJSC GTLK | 31 March 2017 | 31 December 2035 | RUB | 261 |
| **Total** | | | | | **816** |

### Operating environment

Emerging markets, including Russia, are exposed to economic, political, social, legal and legislative risks which differ from those inherent to more developed markets. The laws and regulations affecting businesses in Russia may change frequently and are subject to arbitrary interpretations. The future economic trends in Russia depend to a large extent on fiscal and monetary policies adopted by the government, as well as changes in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.

Starting from 2014, the USA and the EU have imposed several packages of sanctions on a number of Russian officials, businessmen and organizations. These events restricted access of Russian businesses to international capital markets.

The impact of changes in economic situation on the Company's future performance and financial position may be insignificant.

In addition, at the beginning of 2020, the world saw an outbreak of COVID-19, which resulted in the World Health Organization (WHO) announcing a pandemic in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating straits for many businesses and have a significant impact on international financial markets. The rapid spread of COVID-19 can significantly affect many businesses operating in various industries, including, but not limited to, disruption of operations due to production interruptions/shutdowns, supply chain disruptions, staff quarantine, decrease in demand and funding issues. COVID-19 may also affect the Group more seriously due to its negative impact on the global economy and major financial markets. The effect of COVID-19 on the Company's operations is largely dependent on the duration of the pandemic and its impact on the global and Russian economies.

*(in millions of Russian Rubles, unless otherwise indicated)*

**Taxation**

Russian business legislation continues to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation. Therefore, the tax assessment approaches that have not been challenged in the past might be challenged during further tax audits. As a rule, tax authorities have a right to review statements for three calendar years preceding the reporting year. However, they may apply to longer periods in some circumstances. Proceeding from its interpretation of the tax legislation, the Group management believes that all taxes were duly assessed. However, the tax authorities may interpret the laws differently, which may have a significant effect on the financial statements.

The Group identified possible contingent tax liabilities for the three-year period ended 31 December 2019. Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 4% of the Group's total revenue.

**Capital expenditure commitments**

As at 31 December 2019 and 2018, the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 353 and 333 million.

## 34. FINANCIAL RISK MANAGEMENT

Risk management is being carried out by the Group in relation to financial (credit, market, currency, liquidity and interest rate), operating and legal risks. The main purpose of financial risk management is to determine risk limits and to further uphold the limits determined. Operating and legal risk management shall provide reliable performance of internal policy and procedures of the Group to minimize these risks.

**Main categories of financial instruments**

The Group's financial assets and liabilities at the reporting dates comprised the following:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Financial assets recorded at amortised cost** | | |
| Cash and cash equivalents | 10 960 | 10 871 |
| Loans receivable | 6 061 | 9 357 |
| Trade and other receivables | 2 722 | 8 985 |
| Restricted cash | 229 | 2 263 |
| **Financial liabilities at amortized cost** | | |
| Loans and borrowings | 44 077 | 62 086 |
| *incl. liabilities directly associated with assets classified as held for sale* | 6 000 | - |
| Bonds | 26 159 | 30 433 |
| Lease liabilities | 20 131 | - |
| *incl. liabilities directly associated with assets classified as held for sale* | 18 604 | - |
| Financial liabilities under leaseback transactions | 17 257 | 6 499 |
| *incl. liabilities directly associated with assets classified as held for sale* | 17 257 | - |
| Trade and other payables | 5 193 | 5 194 |
| Provisions and accrued expenses | 824 | 452 |
| Finance lease liabilities | - | 21 470 |

*(in millions of Russian Rubles, unless otherwise indicated)*

**Fair value of financial instruments that are not measured at fair value on a recurring basis but for which fair value disclosures are required**

The carrying amounts and fair values of the Group's loans borrowings as at 31 December 2019 and 2018 were presented as follows:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Loans and borrowings with variable interest | 5 933 | 5 933 | 47 223 | 47 223 |
| Bonds | 26 159 | 25 592 | 29 793 | 28 017 |
| Loans and borrowings with fixed interest | 38 144 | 40 668 | 14 864 | 15 951 |
| *incl. liabilities directly associated with assets classified as held for sale* | 6 000 | 7 512 | | |
| Lease liabilities | 20 131 | 20 090 | - | - |
| *incl. liabilities directly associated with assets classified as held for sale* | 18 604 | 18 592 | - | - |
| Financial liabilities under leaseback transactions | 17 257 | 17 257 | 6 499 | 6 499 |
| *incl. liabilities directly associated with assets classified as held for sale* | 17 257 | 17 257 | - | - |
| Finance lease liabilities | - | - | 21 470 | 21 470 |
| | **107 624** | **109 540** | **119 849** | **119 160** |

Inputs of Level 3 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received from third parties and related parties.

The fair values of the financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The most significant input were discount rates ranging from 7.58% to 8.30% depending on maturity. These rates are determined based on weighted average interest rates on RUB denominated loans issued by credit institutions to non-financial organizations in 2019 with various maturities.

In determining the fair value of financial liabilities, management of the Group relied on the assumption that the carrying amount of variable rate financial liabilities approximates their fair value at 31 December 2019, as it reflects changes in market conditions, takes into account the risk premium and the time value of money.

The Group used the weighted average market price for transactions with these financial instruments (as a percentage of par value) to determine the fair value of its bonds.

As at 31 December 2019 finance lease liabilities including liability under a leaseback transaction were reclassified as liabilities directly associated with assets classified as held for sale. To determine the fair value the Group used a weighted average interest rate on RRUB-denominated loans issued by credit institutions to non-financial entities adjusted for market average margin of leasing companies in 2019. Thus, at 31 December 2019, the fair value of lease liabilities (including liabilities directly associated the assets held for sale) amounted to RUB 18 592 million and the fair value of the financial liability under leaseback transaction (including liabilities directly associated with assets held for sale) amounted to RUB 17 257 million.

The fair values of lease liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The most significant input were discount rates ranging from 6.85% to 10.05% depending on maturity. The rates are determined based on weighted average rate of raising additional borrowings by the lessee as at 31 December 2019.

Fair value of accounts receivable, short-term loans granted, short-term bank deposits, cash and cash equivalents corresponds to their carrying value, excluding loans issued.

Inputs of Level 2 of the fair value hierarchy were used to measure the fair value of the loan issued to Plainwhite Consultants Limited. As at 31 December 2019 the fair value of the loan was calculated based on the fair value of PJSC RPC UWC ordinary shares that were pledged as collateral amounted to RUB 5 761 million.

***(in millions of Russian Rubles, unless otherwise indicated)***

Inputs of Level 3 of the fair value hierarchy were used to measure the fair value of long-term loans receivable. The fair value of loans was estimated based on discounted cash flows with the key assumption being the discount rate. The discount rate reflects the weighted average interest rate on loans received by the Group, as it takes into account the risk incurred by banks when granting loans to non-financial organizations, i.e. credit risk (estimated by the management of the Group as average) of all borrowers, including those to whom the Group issued the loans. As at 31 December 2019, the fair value of loans receivable was higher than the value as recorded in the consolidated financial statements by RUB 442 million. As at 31 December 2018, the fair value of loans receivable was higher than the value as recorded in the consolidated financial statements by RUB 1 436 million.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. Management controls current liquidity based on expected cash flows and revenue receipts through establishing and maintaining a cash fund sufficient to cover its contractual obligations for the period of three to six upcoming months. Such funds are normally kept as highly liquid short-term bank deposits, and are available on demand.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay not including liabilities directly associated with assets classified as held for sale (Note 7).

| | Less than 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| Fixed interest rate instruments | 10 541 | 45 544 | - | 56 085 |
| Variable interest rate instruments | 3 168 | 20 709 | - | 23 877 |
| Lease liabilities | 525 | 600 | 402 | 1 527 |
| Non-interest bearing liabilities | 5 193 | - | - | 5 193 |
| Provisions and accrued expenses | 824 | - | - | 824 |
| **Total** | **20 251** | **66 853** | **402** | **87 506** |
| **31 December 2018** | | | | |
| Fixed interest rate instruments | 5 071 | 9 065 | 8 886 | 23 022 |
| Variable interest rate instruments | 36 728 | 58 205 | 129 | 95 062 |
| Finance lease liabilities | 3 463 | 13 754 | 17 787 | 35 004 |
| Financial liabilities under leaseback transactions | 1 649 | 4 885 | | 6 534 |
| Non-interest bearing liabilities | 5 194 | - | - | 5 194 |
| Provisions and accrued expenses | 301 | 151 | - | 452 |
| **Total** | **52 406** | **86 060** | **26 802** | **165 268** |

The following table details the Group's expected maturity for its financial assets, except for cash and cash equivalents. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

| | Less than 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| Fixed interest rate instruments | 147 | 7 697 | - | 7 844 |
| Non-interest bearing assets | 2 726 | 55 | 176 | 2 957 |
| **Total** | **2 873** | **7 752** | **176** | **10 801** |
| **31 December 2018** | | | | |
| Fixed interest rate instruments | 128 | 3 421 | 14 362 | 17 911 |
| Non-interest bearing assets | 10 607 | 539 | 146 | 11 292 |
| **Total** | **10 735** | **3 960** | **14 508** | **29 203** |

*(in millions of Russian Rubles, unless otherwise indicated)*

**Market risk**

The Group is exposed to the risks of changes in foreign currency exchange rates and interest rates. The Group does not enter into any derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. Management sets limits on the value of risk that may be accepted, which is monitored on a monthly basis.

There have been no changes as to the Group's exposure to market risks or the manner in which these risks are managed and measured

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rates and changes in foreign currency rates.

**Currency risk**

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. During 2019 and 2018, the Group entered into certain transactions denominated in USD and EUR.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the reporting date relative to the functional currency of the respective entities of the Group:

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Monetary financial assets | Monetary financial liabilities | Net monetary position | Monetary financial assets | Monetary financial liabilities | Net monetary position |
| USD | 931 | 51 | 880 | 1 060 | 69 | 991 |
| EUR | 730 | 259 | 471 | 917 | 498 | 419 |
| **Total** | **1 661** | **310** | **1 351** | **1 977** | **567** | **1 410** |

The table below details the Group's sensitivity to weakening of the Russian Ruble against the respective foreign currencies by 30%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

| | USD - impact | | EUR - impact | |
|---|---|---|---|---|
| | 31 December 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 |
| Income | 264 | 297 | 141 | 125 |

The strengthening of the Russian Ruble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year-end exposure does not reflect the exposure during the year. At the same time, the exposure is assessed as not significant and not having a material effect on the Group's operations and financial performance.

The share of export sales denominated in foreign currency in the total revenue for 2019 does not exceed 4%.

The Group's costs depend on the national currency exchange rate, export prices on raw materials, and demand on domestic and international market. The prices for the main materials and components other than wheel bearings and imported materials are set in rubles and depend on Russian price indices to rolled steel and scrap. The share of imported materials and components including technological materials that depend on the exchange rate is estimated as 15%.

*(in millions of Russian Rubles, unless otherwise indicated)*

**Interest rate risk**

The Group is exposed to the interest rate risk because entities in the Group borrow funds at both fixed and variable interest rates. The Group manages its credit risk by maintaining an appropriate mix between fixed and variable rate borrowings. The Group is also exposed to interest rate risk with respect to bonds with variable interest rates and to a certain extent to the effects of fluctuations of interest rates arising from changes in financial markets. This exposure extends to cash flow and fair value risks on its future borrowings and lease receivables. The Group reduces this risk by including in its lease agreements an option to increase lease rates in case of significant changes in market conditions.

The sensitivity analysis below has been determined based on the exposure to interest rates for bonds and variable interest rates borrowings at the reporting date. The analysis assumed that the balance at the end of the period remained unchanged during the reporting period.
A 3% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

If interest rates had been 3% higher (lower) and all other variables were held constant, the Group's consolidated profit for 2019 would have (decreased) increased by RUB 570 million.
For 2018, a 3% increase or decrease in exchange rates would lead to RUB 2 310 million increase/(decrease) in the consolidated loss.

**Credit risk**

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Exposure to credit risk arises as a result of the Group’s transactions with counterparties giving rise to financial assets.

The Group’s maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash and cash equivalents | 10 960 | 10 871 |
| Loans receivable | 6 061 | 9 357 |
| Trade and other receivables | 2 722 | 8 985 |
| Restricted cash | 229 | 2 263 |
| **Total** | **19 972** | **31 476** |

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group primarily transacts with entities with a reliable credit rating using publicly available financial information and its own trading records to rate its major customers. The Group’s exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties to avoid excessive concentrations of risks. Credit exposure is controlled through credit limits that are reviewed and approved by the risk management committee annually.

Concentration of credit risk for account receivables from sale of railcars is about 56% as at reporting date. The balance is formed by outstanding amounts from external customer, however, management of the Group considers credit risk to be limited. As at 31 December 2019 the credit risk associated with trade and other receivables related to the outstanding receivables on a leaseback transaction of RUB 4 341 million. The outstanding balance was fully repaid in 1Q 2019 after the fulfillment by the Group of all its obligations for railcars supply under the leaseback agreement.

***(in millions of Russian Rubles, unless otherwise indicated)***

The credit risk on liquid funds represented by cash and cash equivalents, excluding restricted cash, is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

| **Bank** | **Rating agency** | **Rating** | **31 December 2019** | **31 December 2018** |
|---|---|---|---|---|
| Otkritie FC Bank PJSC | Moody's | Ba2 | 10 822 | 8 801 |
| PNC Bank | Fitch Ratings | A+ | 86 | 118 |
| Other | | | 52 | 171 |
| Sberbank PJSC | Fitch Ratings | BBB | - | 813 |
| Moscow Credit Bank PJSC | Fitch Ratings | BB | - | 594 |
| Gazprombank (JSC) | Fitch Ratings | BBB- | - | 374 |
| **Total** | | | **10 960** | **10 871** |

As regards loans issued, the Group constantly monitors changes in the credit rating of its debtors and makes a provision for expected credit losses (Note 23).

**Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance within the limits imposed by its providers or finance. The capital structure of the Group consists of net debt (borrowings and bonds as detailed in Notes 26 and 27, offset by cash and cash equivalents balances), and equity and reserves.

## 35. EVENTS AFTER THE REPORTING DATE

In January 2020, the Group started to discontinue its operations in the *Lease* segment: a portion of the railcar fleet pledged as collateral under the leaseback agreement was sold with finance lease receivables restructured: the net book value of the disposed assets at the disposal date amounted to RUB 14 468 million, the liabilities at the disposal date totaled RUB 17 112 million and net cash from transaction amounted to RUB 2 160 million.

In February 2020, the Group changed its registered address. As at the date of approval of these financial statements, the Company was registered at: Ul. Arbat, D. 10, Etazh 4, Pomeschenie I, Komnata 2, Moscow 119002.

In 1Q 2020, the Group breached a covenant under its loan agreement with Otkritie FC Bank PJSC. Breach of covenants envisaged by the loan agreements enabled the bank to demand early repayment of loans amounting to RUB 31 808 million. In March 2020, the Group received a letter from Bank FC Otkritie PJSC notifying of the bank's waiver of the right to demand early repayment because of non-compliance with covenants in 4Q 2019 and 1Q 2020. Moreover, PJSC Otkritie FC Bank issued a guarantee information letter in respect of the Group stating that the Bank had no plans to demand early repayment of loans granted to the Group, including because of the breached covenants, nor any other plans that may affect the Group's financial stability.

Following the Decree of the Russian President On Establishing Non-Working Days in the Russian Federation and to ensure sanitary and epidemiological wellbeing of employees at all PJSC "RPC UWC"'s entities in Tikhvin and Izhevsk as well as in its subdivisions in Moscow and St. Petersburg, paid non-working days were declared for the period from 30 March to 30 April 2020 (inclusive), and the production was stopped in the period from 30 March to 6 April 2020. Following the approval of the new list of systemically important enterprises by the Government commission to ensure sustainable economic development on 3 April 2020 that included the Company and a number of its production subsidiaries and affiliates, production in Tikhvin and Izhevsk was resumed.

The Group's management assessed potential effect of the production shutdown on current liquidity and working capital adequacy of the Group and its subsidiaries and estimated projected financial results for 2020. It concluded that despite the insignificantly short period of production shutdown and preliminary results of 1Q 2020 (Note 2) that are in line with the previously approved Group's budget, it is currently impossible to estimate the overall adverse impact of the economic recession, worsening market environment, weakening ruble, and a drop in oil prices (Note 33). These events occurred after the reporting date and entailed a sharper decrease on the freight railroad transportation market. At the date of approval of these consolidated financial statements, the negative impact cannot be fully assessed as most assumptions and inputs (including macroeconomic indicators) underlying predictions and calculations of asset recoverable amount are suffering significant volatility and high uncertainty. However, preliminary estimates and projections certify to risks of a decrease both in value in use and, in general, in the recoverable amount of the Group's non-current assets and lower financial performance in 2020.